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ORIGINAL

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549



## Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1979

Commission file number 1-5026

TOTAL NUMBER OF PAGES  
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MENTS HEREON IS 361

## GAF Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

140 West 51st Street, New York, New York

(Address of principal executive offices)

13-0762027

(I.R.S. Employer  
Identification No.)

10020

(Zip Code)

Registrant's telephone number, including area code: (212) 621-5000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Preferred Stock, par value \$1.00 per share	New York Stock Exchange
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes ☒ No

(APPLICABLE ONLY TO CORPORATE ISSUERS)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report:

Common Stock 13,446,572 shares

## **Item 1. Business.**

GAF Corporation and its subsidiaries (collectively, the "Company") are engaged in three industry segments: the manufacture and sale of (i) chemicals; (ii) photographic and reprographic products; and (iii) building materials. Financial information concerning the Company's industry segments required by Item 1 is included under Item 2, "Summary of Operations". See also Note 17 of Notes to Consolidated Financial Statements for additional industry segments information.

On March 21, 1980 the Company announced the termination of its X-ray film and related chemical and equipment product lines. The action is expected to result in the termination of approximately 630 employees and a pre-tax charge to earnings which, by reason of differential tax rates on related gains and losses, is expected to have no material after-tax effect. A small location in Cedar Knolls, New Jersey which manufactures X-ray intensifying screens is being offered for sale. With respect to the rest of the X-ray operations, manufacturing has been discontinued and remaining inventories will be sold. See "General".

Developments in the Company's businesses are discussed under the relevant industry segment headings.

### **Chemicals**

#### ***Principal Products***

*Acetylene chemical products* — The Company processes acetylene, a very explosive gas, into a wide variety of acetylene-based chemicals, with uses in the manufacture of plastics, synthetic fibers, cosmetics, electroplating chemicals, pharmaceuticals, solvents and adhesives. Polymers include Plasdone<sup>®</sup>, PVP (polyvinylpyrrolidone), and Gafquat<sup>®</sup> vinylpyrrolidone copolymers. Solvents include BLO<sup>®</sup> butyrolactone, M-Pvrol<sup>®</sup> methylpyrrolidone, and THF (tetrahydrofuran). Intermediates include butanediol. Vinyl ethers include Gantrez<sup>®</sup> polymers.

*Specialty chemical products* — The Company manufactures and sells a number of specialty chemicals including surfactants, which are agents that possess detergent, emulsifying, dispersing and wetting properties and are used in the manufacture and compounding of detergents (primarily industrial), insecticides, pesticides, textiles, paper, leather, rubber, plastics and chemicals and in the production and refining of petroleum and mineral products. Other specialty chemicals marketed include ultra-violet absorbers, textile auxiliary chemicals and organometallics.

*Agricultural chemical products* — This line includes a toll manufactured product as well as Cepha<sup>®</sup> plant growth regulator and various intermediates.

*Latex* — These products include polymer and rubber latices for rug backings, fabric coating and paper coatings; latex foam backing for drapery fabrics; and latex adhesives for fabric lamination.

*Mineral products* — This line comprises mineral granules used by the roofing industry to manufacture shingles and rolled roofing.

*Paper and mineralboard* — These products include millboard products, noise control products, including Gafpac<sup>®</sup> gasketing materials, and asbestos paper.

*Filters* — This line includes a filter bag system (filter bags and hardware) for liquid filtration which is manufactured in Europe for markets outside the United States.

*Engineering thermoplastics* — The Company offers a line of polybutylene terephthalate plastics under the trademarks Gafite<sup>®</sup> and Gafuf<sup>®</sup>.

#### ***New Products***

The Company has introduced a new latex for non-woven products to compete against acrylic latices. New warp grades of Gafite<sup>®</sup> PBT engineering thermoplastic for use in the automotive industry and Gafuf<sup>®</sup> PBT, a high impact product, are also being introduced.

#### ***Sources of Raw Materials***

The raw materials used in the production of the Company's chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts which are, in general, standard for the industry. Certain of the Company's raw materials, including acetylene, are obtained from single or limited sources pursuant to supply contracts. With respect to acetylene, the Company is supplied domestically at two locations by separate sources and has contracted for supplies for a third plant currently under construction. Were these sources to be interrupted for any reason, the development of alternative sources of supply could involve interruption of production and would probably result in increased costs. Some temporary shortages of acetylene supply did occur during 1979 at one location.



Petroleum-based products are used in many of the Company's chemical manufacturing processes and consequently the price and availability of petroleum is material to the costs of operations. The Company has been able to obtain adequate supplies of petroleum-based products, although at steeply increased prices and with occasional minor interruptions of supply. The Company anticipates further increases in the costs of these products.

#### ***Patents, Trademarks, etc.***

The Company owns approximately 514 domestic and 400 foreign patents and approximately 195 domestic and 820 foreign trademarks, related to this industry segment. It is, in addition, licensed to use for these purposes a significant number of domestic and foreign patents. The Company believes its rights under the patents protecting a substantial number of its products to be material. The durations of the existing patents, trademarks and licenses are deemed generally satisfactory.

#### ***Seasonal Variations, Working Capital, Customers***

Seasonal variations are not material to this industry segment except with respect to sales of agricultural chemicals which peak during the early spring.

Inventory balances are generally sufficient to meet customer demand and would not materially deviate from standards for the industry. This segment does not generally provide for extended payment terms to customers. Inventory and receivables have increased during 1979 and are creating additional cash requirements.

No single customer or group of customers under common control is responsible for sales in excess of 10% of the consolidated revenues. In one toll manufacturing arrangement, sales depend entirely upon a single customer. The Company believes it has adequate contractual commitments from the customer. In certain instances a single customer may purchase all or a significant part of the Company's output of a particular product. The Company does not believe that the loss of any one such customer would have a material adverse effect on this industry segment.

#### ***Backlog, Government Sales, Competitive Conditions***

Backlog is not material to this industry segment or any of its principal products.

Sales to the federal government are not material to this industry segment.

The Company is the sole United States producer of a complete line of high-pressure acetylene-based chemicals, although it competes with imports from a large foreign manufacturer. This foreign manufacturer also has a plant in the United States for the production of butanediol, a major product in the acetylene chemical line. While another company manufactures substantial quantities of butanediol for its own use, the Company believes it has the largest sales volume of butanediol in the United States.

In the balance of its chemical business the Company faces competition from many companies, certain of which are substantially larger than the Company and offer a broader range of products. The Company has generally responded to these competitive pressures by emphasizing very specialized product lines. Competition in those areas of the chemical industry in which the Company is engaged is chiefly based upon price, product quality and reliability of supply. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of the Company in this field.

#### ***Recent Developments***

Pursuant to a 1975 agreement, the Company and Chemische Werke Hüls, A. G. ("Hüls") constructed and are operating a joint venture at Marl, West Germany with a planned annual capacity of approximately 60 million pounds of butanediol. The agreement provides that Hüls will supply acetylene to the plant from an adjacent manufacturing facility. The plant enables the Company to compete effectively with the manufacturer which currently dominates the European butanediol market. Although sales have been lower than anticipated because European demand has not developed as quickly as had been estimated, such sales have risen steadily. A substantial portion of the butanediol production is now being exported to the Company's United States plants for use in the manufacture of other acetylene-based products for re-export. In 1979 construction was begun on an addition to the plant in Marl. The new facilities are producing THF (tetrahydrofuran), a butanediol derivative.

The Company has increased by approximately 75% its domestic production capacity at its Linden facility for THF (tetrahydrofuran).

In addition, the Company completed construction of a formaldehyde unit at its Texas City plant which will eliminate the need for an outside supply of this chemical for the Company's butanediol production.

During 1979, the Company also started construction of a butynediol plant at Seadrift, Texas. The butynediol is to be used in the manufacture of butanediol at the Company's plants in Calvert City and Texas City. Acetylene for the unit will be provided pursuant to a long-term sales agreement. The Company anticipates that the plant will be onstream in early 1981.

The contractual arrangement under which the Company manufactures an agricultural chemical for another company was amended and extended in 1979. The Company also markets some agricultural chemicals of its own and is engaged in experimental work with a view to adding other products to this line later in the decade.

In late 1978 the Company embarked upon a capital program whereby the existing production capacity for mineral granules would be expanded by approximately 15%. The program, which covers three of the Company's four granule plants, though delayed by environmental considerations, is expected to be completed in 1980. Additional expansion was authorized in 1979. The Company anticipates that these expansions will improve its ability to supply its own requirements and those of its present customers over the short term and enable its plants, which have been operating at full capacity, to achieve greater efficiencies.

In 1979 the Company completed modifications of a facility at its Calvert City plant for the manufacture of polybutylene terephthalate ("PBT"). PBT is the basic material for a family of polyester compounds which possess properties suitable for use in the automotive and electronics market, among others. Though the Company is one of a small number of companies which produce butanediol, one of the basic raw materials for PBT resin, substantial competition has been experienced in the various PBT markets from a number of other thermoplastic manufacturers, certain of which are substantially larger than the Company. The Company considers the product to be in the market introduction phase.

Regulatory restrictions on the use of asbestos are presently under consideration and may impact the Company's paper and mineralboard products line, which accounts for only a minor portion of the Company's chemical sales and profits.

The capital investments described in this section involved expenditures of \$15.3 million in 1979 and additional domestic commitments of \$7.5 million at year end. These investments are presently being funded by cash flow generated by operations, various short-term lending facilities and industrial revenue bonds. Drawdowns on such bonds in 1979 supplied funds in the aggregate amount of \$2.8 million.

## **Building Materials**

### **Principal Products**

**Roofing** — These products include prepared roofing (asphalt shingles, roll roofing and accessories) for the residential construction and remodeling market and built-up roofing (primarily asphalt coated and saturated organic felts, cements and coatings) for commercial and institutional buildings. Included in the roofing line is the Company's premium shingle, Timberline®.

**Sheet vinyl** — The Company produces a full line of Gafstar® sheet vinyl floor coverings.

**Floor tile** — The Company's Gafstar® tile lines include architectural, decorator and Brite-Bond™ no-wax surface.

**Flooring felt** — These products are used as substrate for sheet vinyl floor covering.

**Insulation** — Under the Galttemp® line the Company sells rigid polyurethane and polyurethane-composite roof deck insulation for the built-up roofing industry. Other building insulation products are purchased for resale from another manufacturer.

**Automotive** — These products include standard and advanced mastics and sound-deadening paddings for original equipment use.

**Siding** — Vinyl siding, trim and accessories are manufactured and marketed under the name Vanguard®.

**Mineral fiber** — This product line was terminated during 1979.

The Company accounts for its flooring distribution centers and building materials supply centers as product lines.

### **New Products**

The Company has introduced its Gafstar® 7500 series of sheet vinyl flooring. The Gafstar® 6700 series, which is marketed with the trademark SVS surface, is also a recent introduction. With respect to glass mat, see "Recent Developments".

### ***Sources of Raw Materials***

A major portion of the raw materials used for the manufacture of building materials is purchased from a large number of outside sources and the balance is produced by the Company, including roofing granules, which are used to surface asphalt roofing products. Granules have been in short supply, with resulting interruptions of production. See "Chemicals — Recent Developments" for discussion of expansion of granules production.

Asphalt, a major raw material for roofing, is derived from petroleum and consequently the price and availability of petroleum are major factors in the costs of operation. The Company purchases asphalt from major oil refineries and independent operators. The Company has been able to obtain adequate supplies of petroleum-based products, although at increased prices. The Company anticipates further increases in the costs of these products.

The Company has occasionally experienced difficulty in obtaining supplies of asbestos fiber for use in floor tiles. Because there are a limited number of suppliers, there is no assurance that future disruptions will not occur, although other manufacturing alternatives are available.

### ***Patents, Trademarks, etc.***

The Company owns approximately 97 domestic and 172 foreign patents and approximately 125 domestic and 500 foreign trademarks related to this industry segment. It is, in addition, licensed to use for these purposes a significant number of domestic and foreign patents. The Company believes its rights under the patents protecting certain of its products to be material. The durations of the existing patents, trademarks and licenses are deemed generally satisfactory.

### ***Seasonal Variations, Working Capital, Customers***

The sales and installation of the Company's roofing, siding and insulation decline during the winter months due to adverse weather conditions. To maintain a more constant level of manufacturing and sales, the Company follows what is believed to be an industry-wide practice of "winter dating" in most regions, pursuant to which advantageous extended credit terms are offered to credit-worthy customers who order and accept delivery of roofing, siding and insulation during the winter months.

Due to the seasonality of the roofing industry, the Company follows the industry practice of establishing inventories to meet the needs of peak construction and renovation seasons. Inventory and receivables have increased during 1979 and are creating additional cash requirements.

No single customer or group of customers under common control is responsible for sales in excess of 10% of the consolidated revenues. Flooring felt is consumed internally and sold to one outside customer.

### ***Backlog, Government Sales, Competitive Conditions***

Backlog is not material to this industry segment or any of its principal products.

Sales to the federal government are not material to this industry segment and renegotiable sales are insignificant.

The building materials industry is highly competitive. The Company believes that it is the leading producer of asphalt roof shingles and an industry leader in built-up roofing. The Company is also a major factor in the sheet vinyl and floor tile markets, although it faces stiff competition from other companies, one of which is substantially larger than the Company. Despite cutbacks in response to excess market capacity, the Company retains a significant position in the automotive sound deadening and automotive insulation products industry.

Competition in the roofing, siding and insulation lines of the Company's building materials segment is based largely upon price, distribution capability, complementary product lines and credit terms. The floor covering products are subject to competition primarily on the basis of product design, variety of patterns and grades, prices and service.

### ***Recent Developments***

During 1979 the Company experienced certain difficulties in the operation of its sheet vinyl flooring plant in Mullingar, Ireland. The resultant delay in production and marketing programs, as well as write-offs of inventory not meeting quality control standards, adversely impacted the Company's earnings. The operational problems have been overcome, and the Company is now producing products, and achieving yields, at least equal to those which the Company achieves domestically. The plant has

become the Company's principal source of sheet vinyl for sale in Europe and other foreign markets. The Company faces widespread competition for its sheet vinyl products in the European market, especially from a number of local producers with substantial manufacturing capacity in certain major countries.

The Company terminated its asbestos cement and mineral fiber operations conducted at its St. Louis and South Bound Brook plants. Most of the St. Louis plant has been converted to the production of urethane roof insulation. Start-up costs and labor difficulties have affected earnings of the insulation product line.

In 1979 the Company closed one of its automotive sound deadening and insulation plants and took other steps to reduce the impact of depressed market conditions in the automobile industry upon the Company's operations in this area.

Start-up began in December 1979 at the Company's facility in Chester, South Carolina, for the manufacture of glass mat for use primarily in the production of roofing shingles. The facility will enable the Company to produce its own glass mat from glass fiber which it presently intends to purchase from outside vendors. The facility is in the start-up phase.

The Company expects to complete construction in July 1980 of a new glass mat based roofing plant in Fontana, California, which will be its first roofing plant on the West Coast. Additional glass mat shingles capacity was added in Savannah and construction has started on a similar unit in Dallas.

Substantial capital investments were also made in 1979 in the Company's roofing facilities in South Bound Brook, Joliet and Kansas City. The Company's roofing sales are affected by the level of housing starts, which, as of early 1980, were decreasing. However, roofing sales have historically to some extent also been countercyclical, as remodeling and renovation projects generally rise when housing starts decline. The Company cannot predict the effect of high interest rates and credit restrictions on this historical pattern.

During the year the Company opened its first building materials supply center and expanded its domestic and Canadian network of flooring distribution centers.

The capital investments described in this section involved expenditures of \$34.6 million in 1979 and additional domestic commitments of \$14.3 million at year end. These investments are presently being funded by cash flow generated by operations, various short-term lending facilities and industrial revenue bonds. Drawdowns on such bonds in 1979 supplied funds in the aggregate amount of \$1.9 million.

## **Photo & Repro**

### ***Principal Products***

**Reprographic products — DIAZO MATERIALS.** The Company produces a full line of sensitized paper and polyester films for diazo use. **DIAZO EQUIPMENT.** This equipment, including the Print Vac® and Gaflog™ lines, is used by engineers, architects and others to reproduce plans, seismic logs and other translucent originals. **OTHER REPROGRAPHIC PRODUCTS.** These products include engineering drafting paper and film, various services and equipment, replacement parts, polyester specialties and lamps. **MICROGRAPHIC PRODUCTS.** Diazo microfilm, under the trade name Gafline™, is used to duplicate computer output. **SERVICES.** The Company services and maintains diazo equipment.

**Industrial photo products — X-RAY.** Until the operations were discontinued on March 21, 1980, the Company manufactured X-ray film, processing chemicals and hardware for medical, dental and industrial use, including its Gafmed® line of medical X-ray products. The Company's intensifying screens operations are being offered for sale. **GRAPHIC ARTS.** The Company's Gafmate® and Gaftype™ products are used in the printing industry for phototypesetting and other processes.

**Pictorial products — STEREO VIEWERS.** The Company produces the View-Master® stereo viewers and reels. **SLIDE VIEWERS.** This line is based on the Pana-Vue® viewer. **SLIDES.** Pana-Vue® slides are produced for use with the Pana-Vue® viewer. **SLIDE PROJECTORS.** The Company manufactures and sells projectors in Europe. The Company is phasing out its domestic slide projector operations and is selling out its inventory on a private label basis.

**GAF Broadcasting Company, Inc.** — This subsidiary operates the classical music radio station WNCN-FM in New York, New York.



### ***New Products***

The Company has introduced the Gaflog™ diazoprinter, for the oil exploration business, and Gaffine™ 12 diazo microfilm, for computer output duplication, with new yellowing-resistance properties. The Double-Vue™ automatic, hand-held movie viewer with two full-color films per cartridge achieved broader distribution in 1979. The Company plans to introduce a new electronic toy under the trademark Melody Madness.

### ***Sources of Raw Materials***

The Company purchases from several sources the raw materials and components (some of which are manufactured to its specifications) for the film, paper and viewers manufactured by it. The price of silver, which is the most important raw material used in the manufacture of film and photographic paper, has risen sharply in recent years. The price of silver, based on the Handv & Harman daily New York quotations, was as low as \$3.91 in 1975 and as high as \$28.00 in 1979. Prices ranged from \$16.50 to \$48.00 in 1980 through March 21. At March 21, 1980 the quotation was \$21.90. The termination of the X-ray operations will reduce the Company's annual requirements for silver. Furthermore, graphic arts film uses only one-half as much silver per square foot as X-ray film.

Though competitive factors have from time to time limited the Company's ability to implement increases in the price of graphic arts film and paper related to the increased cost of silver, the Company has recently been able to put into effect substantial price increases for these products. The Company can offer no assurance that competitive factors may not inhibit its ability to pass on cost increases for graphic arts film and paper in the future.

Acetate film base used by the Company is manufactured by it. Other film bases, including polyester, are purchased primarily from domestic sources.

The raw materials and supplies used in the manufacture of reprographic business products are purchased from several sources and, although in some cases parts are built to the Company's specifications, alternate sources for such parts are available.

### ***Patents, Trademarks, etc.***

The Company owns approximately 502 domestic and 753 foreign patents and approximately 565 domestic and 1,600 foreign trademarks related to this industry segment. It is, in addition, licensed to use for these purposes a significant number of domestic and foreign patents. The Company believes its rights under the patents protecting certain of its products to be material, including those held under license relating to Talking View-Master® and over 100 character licenses relating to View-Master®. The durations of the existing patents, trademarks and licenses are deemed generally satisfactory.

### ***Seasonal Variations, Working Capital, Customers***

Seasonal variations are not material to this industry segment, except for pictorial products which have peak sales in the last four months of the year. Inventory balances are generally sufficient to meet customer demand and would not materially deviate from standards for the industry. This segment is not required to carry significant amounts of inventory for any customer. Payment terms are in line with practices for the industry, except for pictorial products, which may be offered on extended terms during off-peak seasons. Inventory and receivables have increased during 1979 and are creating additional cash requirements. The Company anticipates that the termination of X-ray operations will reduce these requirements.

No single customer or group of customers under common control is responsible for sales in excess of 10% of the consolidated revenues. In certain private label manufacturing arrangements, sales depend entirely upon a single customer. Such arrangements are not material to this segment. The Company believes it has adequate contractual commitments from the customers in all such instances.

### ***Backlog, Government Sales, Competitive Conditions***

Backlog is not material to this industry segment or any of its principal products.

The federal government has been a significant customer for industrial photographic and reprographic products. A substantial portion of this business was for the now terminated X-ray operations. Most contracts are of a supply type and are not subject to renegotiation. The government has not effected any changes in those contracts that are renegotiable. Terminations of contracts have been insignificant.



The Company believes that it is the leading producer of stereo viewers and reels and that it is one of the two leading domestic producers of diazo reproduction equipment, diazo papers and other diazo coated products. The diazo process may be subject to increasing competition from other processes. On the other hand, since it does not utilize silver, it has potential for use in new applications.

#### ***Recent Developments***

In recent years the Company has been using a portion of its plant in Sint-Niklaas, Belgium, as a distribution center and warehouse for its building materials products and a production facility for its European filter operations. As a result of business conditions, including the discontinuance of consumer photographic operations, this plant had been operating at substantially less than full capacity and sections of the facilities had been unutilized. Additional products for the plant are under development.

#### ***General***

In July 1977, the Company announced the discontinuance of its consumer photo operations, as well as of its dyestuffs and pigments operations, felt and filters operations and a small industrial chemical distribution business. Effective as of December 31, 1977, the Company discontinued its photo processing operations and, effective as of December 31, 1978, the Company discontinued its business forms operations. The consumer photo operations have been terminated and the other discontinued operations have been sold.

#### ***Research and Development***

Research and development expenses in 1979 and 1978 were \$17,001,000 and \$14,632,000, respectively. Approximately 60% of the amount spent in each year was used for research to develop new products and processes, while the remaining 40% was used to enhance existing products and technologies. The latter category includes product quality improvements, improved formulations and experimentally-developed new applications to exploit the full potential of existing products.

As of February 29, 1980, 275 professional employees were engaged in Company-sponsored research and development.

#### ***Protection of the Environment***

By reason of the nature of the Company's past and present operations and certain of the substances which are or have been used, produced or discharged in connection therewith, environmental standards relating to health, air and water promulgated by various regulatory bodies are having, and are expected increasingly to have, a substantial impact upon the Company. While the exact nature of the environmental control problems which the Company will encounter in the future cannot be predicted, in part because of changing regulatory standards, substantial additional capital expenditures and increased operating expenses, the amount of which cannot be estimated at this time, may be occasioned by the Company's continuing efforts to deal responsibly with environmental matters.

The federal Toxic Substances Control Act, which requires the testing and restricts the use of certain chemical substances, is having, and is expected to continue to have, a significant effect on the Company's operations. The Company has registered all of its chemical products for inclusion on the inventory of the Office of Toxic Substances of the Environmental Protection Agency. It has also implemented procedures for the prompt reporting of any conditions perceived to constitute a potentially substantial risk to health or the environment.

The Company believes that compliance with environmental control requirements will not adversely affect its competitive position in the industries in which it is engaged. These requirements resulted in capital expenditures of approximately \$28,400,000 from 1975 through 1979. The Company currently has plans to invest an additional amount of approximately \$2,800,000 in pollution abatement facilities in 1980, \$3,900,000 in 1981 and \$2,400,000 thereafter. No assurance can be given that the amounts actually invested will not be larger. Pollution control financing arrangements have been entered into with various governmental entities pursuant to which pollution control revenue bonds were issued. All such bonds are unconditionally guaranteed by the Company and the proceeds have been used in connection with pollution control facilities at the Company's plants. The Company anticipates the use of similar types of financing for pollution control facilities at other locations.

#### ***Employees***

At February 29, 1980 the Company employed approximately 15,267 people. At such date, approximately 5,100 employees in the United States and Canada were subject to 55 union contracts, which are effective, in many cases, for two or three year periods. During 1979 a six-week strike occurred in Minneapolis. Other work stoppages occurred in St. Louis and four other locations.

The Company has in effect various benefit plans which include retirement plans and group insurance arrangements providing life, accident, hospital, surgical, medical and dental coverage. The Company and, in many cases, the employees, contribute to the costs of the insurance arrangements.

#### ***International***

The Company's international operations, which are consolidated in the results of the Company's three industry segments, include export of the products manufactured by the Company in the United States, which represent approximately 49% of foreign sales, and the operations of the Company's foreign subsidiaries. Sales by foreign subsidiaries are principally in Western Europe. Subsidiaries are also active in Australia, Canada and elsewhere. For 1975, 1976, 1977, 1978 and 1979, the Company's international operations, including export sales from domestic operations, accounted for approximately 20%, 19%, 19%, 20% and 23%, respectively, of its net sales for such years. The Company does not believe there are any unusual risks attendant on its foreign operations nor are any of its industry segments dependent on such operations, except insofar as foreign sales are substantially dependent upon foreign manufacturing operations.

Pricing on intercompany sales is determined on a product-by-product basis and is subject to change. Such pricing is above cost and is negotiated between the operating units. No estimate of the impact of this pricing on the revenues or profitability of a particular geographic area is practicable. See Note 6 of Notes to Consolidated Financial Statements for information as to foreign operations.

## Item 2. Summary of Operations.

The following data with respect to summary of operations and lines of business of GAF Corporation and Consolidated Subsidiaries should be read in conjunction with its notes and Management's Discussion and Analysis of Summary of Operations appearing in this Item and with the other consolidated financial statements and related notes appearing under Item 12(a).

### GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES SUMMARY OF OPERATIONS AND LINES OF BUSINESS (NOTES A, B AND C)

	Year Ended December 31				
	1979	1978	1977	1976	1975
	Dollars in Thousands				
<b>Sales</b>					
Chemical	\$339,462	\$280,992	\$226,354	\$213,078	\$198,132
Less Intersegment Sales (Note D)	38,027	32,185	25,449	22,139	20,938
Net Chemical	301,435	248,807	200,905	190,939	177,194
Photo & Repro	320,183	280,832	244,418	218,192	202,100
Building Materials	591,625	533,652	474,218	421,702	372,312
Sales to Unaffiliated Customers	1,213,243	1,063,291	919,541	830,833	751,606
Cost of Products Sold	688,670	765,917	685,337	592,200	517,908
Direct Operating Expenses	224,624	195,614	164,288	152,050	136,672
Direct Operating Profit					
Chemical	64,559	50,636	45,538	41,047	42,331
Photo & Repro	10,078	11,684	3,398	1,354	6,739
Building Materials	25,312	39,440	40,960	44,182	47,958
Total	99,949	101,760	89,916	86,563	97,028
<b>Corporate Expenses</b>					
Interest	19,901	18,677	20,416	17,097	17,616
Other	42,394	27,343	21,249	21,348	17,247
Income from Continuing Operations before Income Taxes (Note 2)	37,654	55,740	48,251	48,138	62,165
Income Taxes	9,471	25,341	22,058	19,970	23,901
Income from Continuing Operations	28,183	30,399	26,193	28,168	38,264
Income (Loss) from Discontinued Segments Net of Income Taxes	—	3,765	(73,150)	(8,468)	(7,318)
Net Income (Loss)	28,183	34,164	(46,957)	19,700	30,946
Less: Preferred Stock Dividend Requirements	3,635	3,636	3,636	3,635	3,635
Net Income (Loss) Applicable to Common Stock	\$ 24,548	\$ 30,528	\$ (50,593)	\$ 16,065	\$ 27,311
<b>Data Per Common Share</b>					
<b>Primary:</b>					
Continuing	\$ 1.83	\$ 2.01	\$ 1.70	\$ 1.85	\$ 2.62
Discontinued	—	.28	(5.52)	(.64)	(.56)
Net Income (Loss)	\$ 1.83	\$ 2.29	\$ (3.82)	\$ 1.21	\$ 2.06
<b>Fully Diluted:</b>					
Continuing	\$ 1.62	\$ 1.76	\$ 1.52	\$ 1.63	\$ 2.21
Discontinued	—	.21	(4.20)	(.49)	(.42)
Net Income (Loss)	\$ 1.62	\$ 1.97	\$ (2.68)	\$ 1.14	\$ 1.79
<b>Dividends Declared:</b>					
Per Preferred Share	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Per Common Share	\$ .68	\$ .64	\$ .60	\$ .58	\$ .52
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding (in thousands)	13,386	13,306	13,252	13,303	13,237

Notes to Summary of Operations and Lines of Business Follow.

Numerical Note References are to Notes to Consolidated Financial Statements.

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO SUMMARY OF OPERATIONS AND LINES OF BUSINESS INFORMATION

### Note A:

The Company reports its operations on the basis of responsibility accounting, whereby the various lines of business are measured after the assignment of only those items of income and operating expense for which each line of business is responsible. Accordingly, the Company does not provide for the allocation of interest and other debt expense, the cost of certain general corporate expenses, and certain other expense and income items.

### Note B:

Consolidated Summary of Operations information is presented so as to segregate continuing and discontinued operations for all periods. See Note 2 of Notes to Consolidated Financial Statements.

### Note C:

Additional information with regard to the Company's business segments is presented below:

	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
	Dollars in Millions				
Identifiable Assets					
Chemical	\$182.6	\$163.4	\$143.2	\$192.5	\$181.1
Photo & Repro	239.0	241.6	243.6	326.9	297.7
Building Materials	348.5	296.3	242.6	205.6	187.8
Corporate	65.5	61.6	61.3	52.4	66.2
Assets of Discontinued Segments	—	22.4	71.7	—	—
Total Assets	<u>\$835.6</u>	<u>\$785.3</u>	<u>\$762.4</u>	<u>\$777.4</u>	<u>\$732.8</u>
Additions to Property, Plant and Equipment					
Chemical	\$ 15.3	\$ 8.5	\$ 12.9	\$ 12.7	\$ 11.1
Photo & Repro	6.3	9.0	11.0	16.8	15.0
Building Materials	34.6	32.4	27.8	17.7	11.8
Corporate	2.6	1.2	.6	1.4	.1
Total	<u>\$ 58.8</u>	<u>\$ 51.1</u>	<u>\$ 52.3</u>	<u>\$ 48.6</u>	<u>\$ 38.0</u>
Depreciation					
Chemical	\$ 8.7	\$ 8.4	\$ 8.0	\$ 7.8	\$ 5.7
Photo & Repro	7.7	7.6	7.9	6.4	6.6
Building Materials	11.4	9.6	8.4	8.5	8.5
Corporate	1.4	1.4	1.3	1.3	1.1
Total	<u>\$ 29.2</u>	<u>\$ 27.0</u>	<u>\$ 25.6</u>	<u>\$ 24.0</u>	<u>\$ 21.9</u>

### Note D:

Intersegment sales are recorded at the same prices charged to unaffiliated customers. Intersegment sales for the Photo & Repro and Building Materials groups were negligible.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF SUMMARY OF OPERATIONS

The Summary of Operations is presented so as to segregate continuing from discontinued operations for all periods. The results of the discontinued businesses are shown separately (see Note 2).

Numerical note references are to Notes to Consolidated Financial Statements.

### 1979 Compared with 1978 — Continuing Businesses

Consolidated sales increased \$149.9 million (14%), with gains in each of the worldwide product sales groups. Chemical sales growth of \$52.6 million (21%) resulted from both price and volume increases. Volume increases were especially strong in acetylene and specialty chemicals. Photo & Repro sales increased \$39.4 million (14%) primarily as a result of pricing and also because of reprographic and industrial photographic volume gains; the effect of translating foreign sales into United States dollars also accounted for a portion of the overall sales increase. For Building Materials, higher selling prices for all products and increased volume in international sheet vinyl flooring products were partially offset by a decline in domestic volume of both roofing and sheet vinyl flooring, with a resultant sales gain of \$57.9 million (11%). The increased unit volume in international flooring is due to the expansion of the sheet vinyl markets in Europe and Canada. Decreased domestic volume reflects production interruptions at several plants resulting chiefly from raw material shortages, equipment breakdowns, weather conditions and a strike.

Direct operating profit decreased \$1.9 million (2%) primarily as a result of a substantial decline in Building Materials nearly offset by a strong gain in Chemical. Chemical results improved \$13.9 million (27%) principally due to improved volume and resultant profits for acetylene and specialty chemicals. Building Materials profits were off \$14.2 million (36%); this decline was attributable primarily to roofing and flooring cost increases for raw materials, energy and other manufacturing and operating expenses in excess of increased selling prices. Also contributing to this decline were roofing volume decreases — caused in part by production interruptions, continued start-up costs for the urethane insulation product line and increased losses from the automotive operation — due to lower sales and production volumes. Direct operating profit for Photo & Repro decreased by \$1.6 million (14%) as a result of higher operating expenses and raw material cost increases. While the profits for the reprographic product line improved as a result of increased volume and prices, margins in industrial photo were adversely affected by the rapid escalation of costs.

Interest expense increased because of higher rates and a higher level of debt. The increase was offset by capitalization of \$2.7 million in interest incurred in connection with financing current additions to property, plant and equipment (see Note 3). The net increase is \$1.2 million (7%). Capitalization of interest was adopted in 1979 in accordance with a recently issued Statement by the Financial Accounting Standards Board.

Other corporate expenses increased \$14.9 million (54%). The principal reasons for this net increase were a pre-tax loss of \$6.0 million on silver futures transactions, a \$10.6 million unfavorable swing in pre-tax foreign exchange results and overall inflationary pressures. These factors were partially offset by improved results from the 50% ownership of a chemical manufacturing company and a captive insurance subsidiary — both carried on the equity method, gains on the sale of several properties, lower executive incentive compensation and other nonrecurring gains in 1979 (see Notes 4 and 5).

The annual effective income tax rate of 25.2% was lower than the 1978 rate primarily due to a United Kingdom tax revision and the increased impact of United States investment tax credits (see Note 9).

### 1978 Compared with 1977 — Continuing Businesses

Consolidated sales increased \$143.8 million (16%) on gains in each of the worldwide product sales groups. Chemical sales increased \$47.9 million (24%) primarily on increased volume in acetylene, specialty and agricultural chemicals. The increase in Photo & Repro of \$36.4 million (15%) was a result of volume increases in the industrial photo and reprographic product lines and, to a lesser extent, because of price increases and translation of foreign sales into United States dollars. For Building Materials, improved sales of the roofing product line, due mostly to price but also to volume increases, provided a \$59.5 million (13%) gain.

Direct operating profit improved \$11.9 million (13%) with gains in Chemical and Photo & Repro slightly offset by Building Materials. Chemical profits were \$5.1 million (11%) ahead of 1977, which included a gain of \$3.7 million on a contract termination. Higher profits were reported in most Chemical product lines but especially in the agricultural, specialty and acetylene areas. The improvement reflected increased unit volume which was partially offset by cost increases which, because of competitive pressures, were not fully passed through to selling prices. The direct operating profit of Photo & Repro increased \$8.3 million (244%) on increased volume and improved operating efficiencies. Building Materials results were down \$1.5 million (4%) due to start-up expenses of new opera-



tions: a sheet vinyl plant in Ireland, an automotive padding and advanced mastic facility and a polyurethane insulation plant. Phase-out expenses incurred in terminating mineral fiber activities also curtailed Building Materials profits.

Interest expense decreased \$1.7 million (8%) primarily as a result of reduced short-term debt.

Other corporate expenses increased \$6.1 million (29%). The increase reflected the nonrecurrence of \$2.2 million of 1977 income from settlement of a lawsuit concerning a chlorine caustic plant formerly owned by the company, the absence of any executive incentive compensation in 1977 and pre-tax gains during 1977 on the sale of several properties and an investment — offset by increased pre-tax foreign exchange gains.

Increased income taxes were proportionate to the change in pre-tax earnings.

### **Prior Years**

In 1975, a \$4.0 million non-taxable gain was realized on the sale of technology to the Chemical joint-venture in Germany and was recorded as a reduction of other corporate expenses.

### **Item 3. Properties.**

The Company's domestic real properties are as follows:

<u>Location</u>	<u>Facility</u>	<u>Group</u>
<b>Alabama</b>		
Birmingham	Distribution*	Building Materials
Huntsville	Plant*	Chemicals
Mobile	Plant, Sales Office	Building Materials
<b>Arizona</b>		
Phoenix	Distribution*	Building Materials
	Sales Office*, Distribution*	Photo & Repro
<b>California</b>		
City of Commerce	Distribution*	Building Materials
Fontana	Plant	Building Materials
La Habra	Distribution	Chemicals
	Plant, Sales Office,	Photo & Repro
	Distribution	
Long Beach	Plant, Sales Office	Building Materials
Palo Alto	Sales Office*	Photo & Repro
San Diego	Distribution*	Building Materials
South San Francisco	Sales Office*	Building Materials
<b>Colorado</b>		
Denver	Plant, Sales Office,	Building Materials
	Warehouse*	
	Sales Office*, Distribution*	Photo & Repro
<b>District of Columbia</b>		
	Sales Office, Government	All Groups
	Relations	
<b>Florida</b>		
Orlando	Sales Office*, Distribution*	Photo & Repro
Tampa	Plant, Sales Office	Building Materials
<b>Georgia</b>		
Atlanta	Distribution*	Building Materials
	Sales Office, Distribution*	Chemicals, Photo & Repro
Savannah	Plant, Sales Office	Building Materials
<b>Hawaii</b>		
Honolulu	Distribution*, Sales Office*	Building Materials
		Photo & Repro
<b>Illinois</b>		
Chicago	Sales Office*	Building Materials
Franklin Park	Distribution*, Sales Office*	Photo & Repro, Building
		Materials
Joliet	Plant, Sales Office	Building Materials
Lincolnwood	Distribution*, Sales Office*	Photo & Repro, Chemicals

<u>Location</u>	<u>Facility</u>	<u>Group</u>
<b>Indiana</b>		
Indianapolis	Sales Office*, Distribution*	Photo & Repro
Mount Vernon	Plant, Sales Office	Building Materials
<b>Kentucky</b>		
Calvert City	Plant	Chemicals
<b>Maryland</b>		
Baltimore	Plant, Sales Office	Building Materials
Glen Burnie	Warehouse	
Hagerstown	Sales Office*	Building Materials
Lanham	Research	Chemicals
	Sales Office*	Photo & Repro
<b>Massachusetts</b>		
Millis	Plant, Sales Office	Building Materials
Newton	Sales Office*	Photo & Repro
<b>Michigan</b>		
Troy	Distribution*, Sales Office*	Building Materials
<b>Minnesota</b>		
Minneapolis	Plant, Sales Office, Warehouse*	Building Materials
<b>Missouri</b>		
Annapolis	Plant*	Chemicals
Joplin	Distribution*	Building Materials
Kansas City	Plant, Sales Office	Building Materials
St. Louis	Plant, Sales Office	Building Materials
<b>New Jersey</b>		
Bound Brook	Plant	Chemicals
Fairfield	Distribution*	Building Materials
Gloucester City	Plant, Warehouse	Building Materials
Linden	Plant, Warehouse, Distribution	Chemicals
Morristown/Cedar Knolls	Plant*	Photo & Repro
South Bound Brook	Plant, Sales, Group Administrative Offices, Research	Building Materials
Wayne	Administrative*	All Groups
West Deptford	Warehouse*	Building Materials
<b>New York</b>		
Binghamton	Plant, Distribution	Photo & Repro
Johnson City	Plant, Warehouse	Photo & Repro
New York	Corporate Executive Offices*, Offices and Studio*	All Groups
Vails Gate	Plant, Sales Office	WNCN-FM
Vestal	Plant	Building Materials
		Photo & Repro
<b>North Carolina</b>		
Charlotte	Sales Office*	Chemicals
<b>Ohio</b>		
Cincinnati	Distribution*	Building Materials
Columbus	Distribution*, Sales Office*	All Groups
Elyria	Plant*	Photo & Repro
<b>Oregon</b>		
Progress/Portland	Plant, Sales	Photo & Repro
<b>Pennsylvania</b>		
Allentown	Warehouse*	Building Materials
Blue Ridge Summit	Plant	Chemicals
Erie	Plant, Sales Office*	Building Materials
	Plant, Distribution	Chemicals
Frazer	Sales Office*	Photo & Repro
King of Prussia	Distribution*	Building Materials
Whitehall	Plant, Sales Office	Building Materials
<b>South Carolina</b>		
Chester	Plant	Building Materials
<b>Tennessee</b>		
Chattanooga	Plant, Sales Office, Warehouse	Chemicals
Memphis	Sales Office*	Building Materials

<u>Location</u>	<u>Facility</u>	<u>Group</u>
<b>Texas</b>		
Arlington	Plant, Sales Office, Warehouse*	Photo & Repro
Dallas	Plant, Sales Office*	Building Materials
Houston	Sales Office*	Building Materials
	Distribution*	Photo & Repro
Seadrift	Plant	Chemicals
Texas City	Plant	Chemicals
<b>Virginia</b>		
Chesapeake	Sales Office*	Building Materials
<b>Wisconsin</b>		
Pembine	Plant	Chemicals
The Company's foreign real properties are as follows:		
<b>Australia</b>		
Adelaide	Distribution*, Sales*	All Groups
Brisbane	Distribution*, Sales*	All Groups
Melbourne	Plant*, Distribution*, Sales*	All Groups
Perth	Distribution*, Sales*	All Groups
Sydney	Plant, Distribution, Sales	All Groups
<b>Austria</b>		
Vienna	Distribution*, Sales*	All Groups
<b>Belgium</b>		
Sint-Niklaas	Plant, Distribution, Sales	All Groups
<b>Brazil</b>		
São Paulo	Distribution*, Sales*	Chemicals
<b>Canada</b>		
Downsview	Distribution*	All Groups
Mississauga	Plant, Distribution, Sales	All Groups
Montreal	Distribution*	Building Materials
	Sales Office*	Photo & Repro
Richmond	Distribution*	All Groups
<b>Denmark</b>		
Ballerup	Distribution*, Sales*	All Groups
<b>Finland</b>		
Helsinki	Distribution*, Sales*	Building Materials
		Chemicals
<b>France</b>		
Louvres	Distribution*, Sales*	All Groups
<b>Great Britain</b>		
Colnbrook	Plant, Distribution, Sales	All Groups
	Administrative*	
Hounslow	Distribution*, Sales*	All Groups
Manchester	Distribution*, Sales*	All Groups
<b>Greece</b>		
Athens	Distribution*, Sales*	Chemicals, Photo & Repro
<b>India</b>		
Bombay	Plant*, Distribution*, Sales*	All Groups
<b>Ireland</b>		
Dublin	Distribution*, Sales*	Building Materials, Photo & Repro
Mullingar	Plant, Distribution, Sales	Building Materials
<b>Israel</b>		
Tel Aviv	Distribution*, Sales*	All Groups
<b>Italy</b>		
Milano	Distribution*, Sales*	All Groups
<b>Mexico</b>		
Mexico City	Distribution*, Sales*	Chemicals
<b>The Netherlands</b>		
Delft	Plant, Distribution, Sales	All Groups

<u>Location</u>	<u>Facility</u>	<u>Group</u>
<b>New Zealand</b>		
Auckland .....	Plant*, Distribution*, Sales*	All Groups
Wellington .....	Distribution*, Sales*	All Groups
<b>Norway</b>		
Oslo .....	Distribution*, Sales*	All Groups
<b>Singapore</b>		
Singapore .....	Distribution*, Sales*	All Groups
<b>South Africa</b>		
Johannesburg .....	Distribution*, Sales*	Photo & Repro, Chemicals
<b>Spain</b>		
Barcelona .....	Distribution*, Sales*	Chemicals
<b>Sweden</b>		
Stockholm .....	Distribution*, Sales*	All Groups
<b>Switzerland</b>		
Zug .....	Distribution*, Sales*	All Groups
<b>West Germany</b>		
Frechen .....	Distribution, Sales	All Groups
Marl .....	Plant, Distribution, Sales	Chemicals

\* Leased property.

The above mentioned properties are either owned by the Company in fee or leased to the Company. That portion of the plant (building and certain equipment only) at Texas City, Texas which produces AMIBEN®, an agricultural chemical sold to Amchem Products, Inc. (a subsidiary of the Union Carbide Corporation), is owned by that company.

The Company believes that in general these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained, are in good condition, and are suitable and adequate for the Company's operations. The Company's major facilities are in general satisfactorily utilized. Each plant has adequate transportation facilities for both raw materials and finished products.

The executive offices of the Company and a substantial portion of its administrative offices are housed in approximately 160,000 square feet of leased space at 140 West 51st Street, New York, New York. The WNCN-FM studio and GAF Broadcasting Company, Inc. offices are at 1180 Avenue of the Americas.

The Company leases from a corporation it organized a number of buildings and approximately 100 acres of land in Wayne, New Jersey, at which are located a number of its research and development operations as well as its general administrative and clerical personnel and its principal electronic data processing facilities. Construction of an additional building commenced in 1979. The Wayne lease is capitalized in accordance with current accounting practice. See Note 15 of Notes to Consolidated Financial Statements.

#### Item 4. *Parents and Subsidiaries.*

The Company has no parent.

All subsidiaries named below are included in the Consolidated Financial Statements.

	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
GAF Corporation .....	Delaware	—
<b>Domestic Subsidiaries</b>		
American Felt Company .....	New Jersey	100%
CoMo Photo Company .....	Iowa	100
54-36 Inc. ....	Delaware	100
GAF Broadcasting Company, Inc. ....	Delaware	100
GAF Communications, Inc. ....	Delaware	100
GAF Export Corporation .....	Delaware	100
GAF Hawaii Inc. ....	Hawaii	100
GAF International Corporation .....	Delaware	100

	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
GAF Realty Corporation .....	Delaware	100
Genanil Realty Corporation .....	New York	100
General Aniline & Film Corporation .....	Delaware	100
Lenco Photo Products, Inc. ....	Delaware	100
The L. L. Cook Company, Inc. ....	Wisconsin	100

#### Foreign Subsidiaries

GAF (Belgium) N.V. ....	Belgium	100
GAF (Deutschland) G.m.b.H. ....	F. R. Germany	100
GAF (France) S.A. ....	France	100
GAF (Norge) A/S .....	Norway	100
GAF (Svenska) A.B. ....	Sweden	100
Sawyer's (Nederland) N.V. ....	The Netherlands	100
Sawyer's Photographic Products (U.K.) Ltd. ....	U.K.	100
GAF (Canada) Ltd. ....	Canada	100
GAF Corporation de Mexico, S.A. de C.V. ....	Mexico	100
GAF (Danmark) A/S .....	Denmark	100
GAF do Brasil Industria e Comercio Ltda. ....	Brazil	100
GAF (Great Britain) Ltd. ....	U.K.	100
Insulecto Ltd. ....	U.K.	100
J. A. Reynolds & Co. ....	U.K.	100
Plan Reproductions Co., Ltd. ....	U.K.	100
The Drawing Office Supplies Ltd. ....	U.K.	100
Vega-Repro Ltd. ....	U.K.	100
GAF (Hellas) S.A. ....	Greece	100
GAF (Hong Kong) Ltd. ....	Hong Kong	100
GAF-Hüls Chemie G.m.b.H. ....	F. R. Germany	50*
GAF Insurance Ltd. ....	Bermuda	100*
GAF (Ireland) Ltd. ....	Ireland	100
GAF (Israel) Ltd. ....	Israel	100
GAF (Italia) S.r.l. ....	Italy	100
GAF (Japan) Ltd. ....	Japan	100
Sawyer's Japan Ltd. ....	Japan	100
GAF (Korea) Ltd. ....	Korea	100
GAF (Nederland) B.V. ....	The Netherlands	100
GAF (Mullingar) Ltd. ....	Ireland	100
Nederlandse Document Reproductie B.V. ....	The Netherlands	100
Micovilm N.V. ....	The Netherlands	100
GAF (1972) Pty. Ltd. ....	N.S.W. (Australia)	100
GAF (Australasia) Pty. Ltd. ....	N.S.W. (Australia)	100
Design Finance Pty. Ltd. ....	N.S.W. (Australia)	100
Diazo Wholesale Pty. Ltd. ....	N.S.W. (Australia)	100
Drawing Office Industries Pty. Ltd. ....	N.S.W. (Australia)	100
Harding and Halden Pty. Ltd. ....	N.S.W. (Australia)	100
Commercial Copying Co. Pty. Ltd. ....	N.S.W. (Australia)	100
GAF (N.S.W.) Pty. Ltd. ....	N.S.W. (Australia)	100
Max Wurcker (Buyers) Pty. Ltd. ....	N.S.W. (Australia)	100
Micro Reprographics Pty. Ltd. ....	N.S.W. (Australia)	100
GAF (New Zealand) Ltd. ....	New Zealand	100
GAF (Qld) Pty. Ltd. ....	Qld. (Australia)	100
GAF (S.A.) Pty. Ltd. ....	S.A. (Australia)	100
GAF (Vic.) Pty. Ltd. ....	Vic. (Australia)	100
GAF (W.A.) Pty. Ltd. ....	W.A. (Australia)	100
Prestige Collections Pty. Ltd. ....	N.S.W. (Australia)	100
GAF (Österreich) G.m.b.H. ....	Austria	100
GAF (Philippines) Inc. ....	Philippines	100
GAF (Singapore) Private Ltd. ....	Singapore	100
GAF (South Africa) (Pty.) Ltd. ....	South Africa	100
GAF (Suomi) Oy .....	Finland	100
GAF (Switzerland) A.G. ....	Switzerland	100
Sawyer's Asia Ltd. ....	India	40*

\* Included in the Consolidated Financial Statements on the equity method.

Individual financial statements of these subsidiaries have been omitted because they are immaterial.



### Item 5. Legal Proceedings.

On April 30, 1973, the Company filed an antitrust action against Eastman Kodak Company ("Eastman") in the U.S. District Court for the Southern District of New York, seeking treble damages in an unstated amount and certain equitable relief, including the division of Eastman into ten separate and independent businesses, the dedication to the public of the trademark "Kodak" and disclosure and licensing on a royalty-free basis of all Eastman's present and future photographic patents and know-how.

The Company stated in its Complaint that it was the last remaining domestic competitor to Eastman in the manufacture of conventional amateur photographic film. The Company alleged that Eastman has forestalled innovation in the development of products incompatible with those of Eastman, and has made numerous changes in its products in order to make the products of its competitors unmarketable. The Complaint further alleged that Eastman has, in many areas of the photographic industry, monopolized the production and sale of photographic supplies, restrained trade, foreclosed markets, made illegal acquisitions and engaged in various other illegal acts and practices. Eastman filed an Answer denying the material allegations of the Complaint. Pretrial proceedings have been recently completed and the case is ready for trial. The parties had agreed to await a determination on a petition for a writ of certiorari to the United States Supreme Court from the final judgment entered by the Second Circuit Court of Appeals in another antitrust action entitled *Berkey Photo Inc. v. Eastman Kodak Company*, before commencing the trial of the Company's suit against Eastman. Certiorari was denied in that action on February 19, 1980. The Company's case is far more comprehensive than Berkey's as it is brought by a competing manufacturer of sensitized photographic materials. In the Berkey case a large award of damages to Berkey after a jury trial was reversed in most respects on appeal and remanded in large part for a new trial.

In July, 1977 Eastman commenced a suit against the Company entitled *Eastman Kodak Co. v. GAF Corporation* in the New York State Supreme Court, Monroe County. The suit seeks damages in an unspecified amount and alleges that the Company is liable for substantial royalties allegedly due Eastman pursuant to certain patent license agreements relating to films, film cartridges and cameras. Although the Company has admitted entering into such license agreements it denies any liability for further royalty payments and the Company has asserted numerous affirmative defenses to Eastman's claims. In November, 1978 the Court granted Eastman's motion to dismiss certain of the Company's affirmative defenses but that ruling was partially reversed on appeal, thus restoring the Company's affirmative defense of patent invalidity. The Court has stayed the trial of this action pending resolution of the Company's antitrust suit against Eastman now pending in the United States District Court for the Southern District of New York. The Company believes that it has substantial and meritorious defenses to this suit.

As of February 28, 1980 the Company was a co-defendant in approximately 2,700 lawsuits involving alleged health claims of non-employees relating to the inhalation of asbestos fibers. In the two such lawsuits in which judgment after trial was entered against the Company, damages were awarded against a number of co-defendants, including the Company. The Company has settled certain other lawsuits involving similar claims. It is anticipated that additional suits may be filed by industrial insulation workers who have been exposed to asbestos dust at numerous construction sites where insulation materials manufactured by the Company and others were used. Also, a number of employees and former employees have filed claims for diseases associated with the inhalation of asbestos fibers under applicable workers' compensation laws. The Company is self-insured with respect to some of these compensation claims, a number of which have been settled.

In May, 1979 the Company commenced an action in the Los Angeles California Superior Court against its past and present insurance carriers to obtain a judicial determination that defendants are obligated to defend and indemnify the Company in numerous third party asbestos cases pending throughout the United States. In addition to declaratory relief, the Company seeks compensatory and punitive damages for breach of insurance contracts, violations of the California Insurance Code and bad faith. The Company also seeks injunctive and other equitable relief.

This litigation is a successor action to similar actions commenced in 1977 and 1978 in the U.S. District Court for the District of Columbia and the Superior Court of New Jersey respectively, which actions were discontinued without prejudice to the Company.

On September 19, 1979, following four months of intensive discovery, defendant Insurance Company of North America ("INA") offered to defend and indemnify the Company in asbestos cases pursuant to a purported reservation of rights. Defendant INA has since made payments on behalf of the Company for defense and indemnity costs related to asbestos cases and is continuing to make payments as statements are submitted. On or about December 3, 1979 following additional discovery, defendants Home Indemnity Company, Home Insurance Company and City Insurance Company likewise offered to defend and indemnify the Company in asbestos cases. In addition, INA has reim-

bursed to the Company approximately \$800,000 which the Company had paid directly to defend and indemnify itself in third party asbestos cases during the period April through October 1979. The Company is pursuing discovery with respect to all of its claims and believes that evidence developed to date supports the Company's position.

The Company is a defendant (generally one of several) in a number of cases and claims involving allegedly defective roofing. The number of such cases has increased over the past year. While the amounts claimed in a number of these cases are substantial, the recovery, if any, from the defendants is frequently apportioned among them, thus reducing the burden of such judgments or settlements.

Descriptions of proceedings by governmental authorities arising under provisions relating to the protection of the environment may be found in the Company's Quarterly Reports on Form 10-Q for the first, second and third quarters of 1979, which descriptions are incorporated herein by reference.

On September 4, 1979 the United States Coast Guard proposed a civil penalty in the amount of \$100.00 in reference to the allegation that asphalt was spilled near the Mobile plant at Choctaw Point, Alabama on April 4, 1979. The \$100.00 penalty was paid on October 12, 1979.

On August 14, 1979 the Department of Environmental Resources of the Commonwealth of Pennsylvania fined the Company for operating its Charmian facilities in violation of its permit. This violation resulted in a \$200.00 fine. An additional penalty of \$6,000.00 was levied with respect to the operation of these facilities without a permit between August 31, 1979 and October 30, 1979. The total \$6,200.00 in penalties was paid on November 28, 1979.

On October 9, 1979 the Company appealed a June 11, 1979 municipal court decision in New Jersey that found the Company guilty of violating the Township of Bridgewater's noise nuisance ordinance. The New Jersey Superior Court affirmed the lower court's decision on December 20, 1979.

**Item 6. *Increases and Decreases in Outstanding Securities and Indebtedness.***

	<u>\$1.20 Convertible Preferred Stock</u>	<u>Common Stock</u>
Number of shares outstanding at December 31, 1978	3,029,367	13,203,040
Conversion of Preferred Stock (various dates in 1979)	(90)	112
Shares reacquired under the Restricted and Unrestricted Stock Purchase Plan:		
May 25, 1979		(1,000)
October 11, 1979		(2,500)
		(3,500)
Issuance of common shares from treasury under the Re- stricted and Unrestricted Stock Purchase Plan (various dates in 1979)		173,500
Issuance of common shares from treasury in connection with stock options exercised in 1978 and 1979 under the 1965 and 1975 stock option plans (various dates in 1979)		73,420
Number of Shares outstanding at December 31, 1979	<u>3,029,277</u>	<u>13,446,572</u>
	<b>STOCK OPTION PLANS (Common Stock)</b>	
	<u>1965 Plan</u>	<u>1975 Plan</u>
Number of Stock Options outstanding at December 31, 1978	153,000	250,900
Options granted (various dates in 1979)	—	317,000
Options exercised or surrendered (various dates in 1979)	(41,900)	(47,230)
Options terminated — (various dates in 1979)	(6,100)	(7,000)
Number of Stock Options outstanding at December 31, 1979	<u>105,000</u>	<u>513,670</u>
	<u>5% Convertible Subordinated Notes</u>	<u>5½ Convertible Subordinated Notes</u>
Principal amount outstanding at December 31, 1978	\$8,200,000	\$2,600,000
Annual prepayment of principal on April 1, 1979	—	200,000
Principal amount outstanding at December 31, 1979	<u>\$8,200,000</u>	<u>\$2,400,000</u>

**Item 7. *Changes in Securities and Changes in Security for Registered Securities.***

No reportable change in securities or change in security for registered securities occurred in 1979.

**Item 8. Defaults upon Senior Securities.**

There has not been any material default in the payment of principal, interest, or a sinking or purchase fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the Company or any of its significant subsidiaries exceeding 5 percent of the total assets of the Company and its consolidated subsidiaries. No material arrearage in the payment of dividends has occurred, nor has there been any other material delinquency not cured within 30 days, with respect to any class of preferred stock of the Company which is registered under the Securities Exchange Act of 1934 or which ranks prior to any class of securities so registered, or with respect to any class of preferred stock of any significant subsidiary of the Company.

**Item 9. Approximate Number of Equity Security Holders.**

Holders of record of outstanding equity securities at February 29, 1980:

<u>(1)</u> <u>Title of Class</u>	<u>(2)</u> <u>Number of Record Holders</u>
Preferred Stock (\$1 par value)	6,981
Common Stock (\$1 par value)	54,858
5% Convertible Subordinated Notes	10
5½% Convertible Subordinated Notes	3

**Item 10. Submission of Matters to a Vote of Security Holders.**

Item 10 is omitted pursuant to its terms as such information was previously disclosed in a report on Form 10-Q.

**Item 11. Indemnification of Directors and Officers.**

The information required by Item 11 is unchanged from that set forth in the registrant's Form 10-K filed for the year ended December 31, 1971.

**Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K.****(a)(1) Financial Statements:**

The following financial statements of GAF Corporation and Consolidated Subsidiaries are contained on the indicated pages:

	<u>Page Number</u>
Opinion of Independent Certified Public Accountants	24
Consolidated Statements of Income for the two years ended December 31, 1979	25
Consolidated Statements of Retained Earnings for the two years ended December 31, 1979	25
Consolidated Balance Sheets as of December 31, 1979 and 1978	26
Consolidated Statements of Changes in Financial Position for the two years ended December 31, 1979	28
Notes to Consolidated Financial Statements	29

The following schedules for the two years ended December 31, 1979 are contained on the indicated pages:

Schedule V — Property, Plant and Equipment	S-1
Schedule VI — Accumulated Depreciation of Property, Plant and Equipment	S-2
Schedule XII — Valuation and Qualifying Accounts and Reserves	S-3

Separate financial statements of GAF Corporation are omitted because its total assets, exclusive of investments in and advances to consolidated subsidiaries, constitute 75 percent or more of the total assets shown by the latest consolidated balance sheet filed and total gross revenues for the latest period for which profit and loss statements are filed, exclusive of interest and dividends received from, or equity in income of, the consolidated subsidiaries, constitute 75 percent or more of the total gross revenues shown by the consolidated profit and loss statements filed.

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

**(2) Exhibits:**

- A(1) —Executive Incentive Compensation Plan, as amended October 18, 1979.
- (2) —Employment Contract with Dr. Werner, as amended as of November 1, 1979.
- (3) —By-laws, as amended through January 24, 1980.
- (4) —Employee Benefit Plans, as amended on January 24, 1980 as of various dates.
- C(1) —Computation of Earnings per Common Share for the Five Years Ended December 31, 1979.
- D(1) —GAF (Mullingar) Limited Loan Agreements (Republic of Eire \$84 financing).

**(b) Reports on Form 8-K.**

No reports on Form 8-K were filed during the last quarter of 1979.

**Item 13. Executive Officers of the Registrant.**

The names and ages of the executive officers of the Company as of March 25, 1980, the date from which they have served as officers, and their present positions with the Company are as follows:

Jesse Werner	63	January 1959	Chairman of the Board and President
Juliette M. Moran	62	October 1967	Executive Vice President
Jay R. Olson	46	September 1970	Executive Vice President
James T. Sherwin	46	June 1971	Executive Vice President
Richard F. Smith	41	November 1974	Executive Vice President
Richard F. Bucher	48	April 1979	Senior Vice President (International)
John A. Brennan	48	January 1977	Senior Vice President (Building Materials)
James M. Cloney	61	August 1966	Senior Vice President (Government Relations)
R. Power Fraser, Jr.	56	June 1968	Senior Vice President (Photo & Repro)
John F. Gow	60	June 1971	Senior Vice President (Personnel Relations)
Joseph G. Hall	60	May 1970	Senior Vice President (Marketing)
Jack Scheckowitz	52	January 1972	Senior Vice President (Consumer Products)
Louis G. Zachary	52	June 1978	Senior Vice President (Chemical)
Randolph C. Bramwell	51	May 1978	Vice President (Marketing Services)
John J. Butler	46	October 1972	Vice President (Building Materials Marketing)
Mason B. Cooke	48	September 1978	Vice President (Vinyl Siding & Supply Centers)
Thomas A. Dent	59	October 1967	Vice President (Technical Services)
Carl R. Eckardt	49	August 1979	Vice President (Commercial Development)
Leo J. Faneuf	54	November 1974	Vice President (Building Materials Manufacturing)
H. Philip Farnham	54	June 1979	Vice President (Materials Management)
Jerome K. Full	53	January 1978	Vice President (Public Relations)
Philip S. Gillcrist	49	August 1977	Vice President (Floor Products Marketing)

Simon W. Kantor	55	August 1972	Vice President (Research and Development)
Bernard L. Kapell	53	August 1979	Vice President (Taxes)
Robert F. McCarthy	55	December 1979	Vice President (Chemicals Manufacturing)
Frederick W. McNabb, Jr.	47	November 1974	Vice President, General Counsel and Secretary
Robert E. Miller	37	August 1979	Vice President (Finance)
Wayne H. Page	57	September 1978	Vice President (Consumer Products Manufacturing)
Alfred P. Rimlinger	63	January 1972	Vice President (International Services)
Raymond W. Smith	42	November 1974	Vice President (Chemical Marketing)
A. Eugene Stillman	55	September 1975	Vice President and Controller
Adele S. Weisman	33	August 1979	Treasurer

Messrs. Miller, Kapell and Eckardt and Ms. Weisman were elected at a meeting of the Board of Directors on August 16, 1979, McCarthy on December 20, 1979, Farnham on June 15, 1979. All other executive officers were elected to their positions by the Board of Directors on April 24, 1979. All of the executive officers were elected to serve without a fixed term of office. No arrangements or understandings exist between any executive officer and any other person pursuant to which the officer was selected as such other than any arrangement or understanding with an officer acting solely in his capacity as such. There is no family relationship between any of the executive officers.

All of the executive officers have been in the employ of the Company for more than five years except as follows: Mr. Bucher, prior to joining the Company in May 1979, was Vice President of international operations for the Winchester group at Olin Corporation. Mr. Zachary, prior to joining the Company in June 1978, was Vice President and General Manager of the Chemical Products Division of Union Carbide Corp. Mr. Bramwell was, prior to joining the Company in May 1978, Vice President of Advertising, Sales Promotion and Marketing at Kayser-Roth Corporation. Mr. Farnham, prior to joining the Company in June 1979, was Vice President for Materials Management of the Becton-Dickinson Corporation. Mr. Full was, prior to joining the Company in January 1978, associated with Sontheimer and Company, a public relations agency. Prior to joining the Company in September 1975, Mr. Stillman was Vice President-Finance of Bausch & Lomb, Inc. Ms. Weisman was, prior to joining the Company in July 1978, a Vice President of Bankers Trust Company.



## PART II

Part II is omitted pursuant to General Instruction H(a) since the Company has filed with the Commission pursuant to Regulation 14A a definitive proxy statement for its 1980 Annual Meeting of Stockholders, which involves the election of directors.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAF Corporation  
(Registrant)

By   
James T. Sherwin  
Executive Vice President

Date: March 27, 1980

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

### GAF CORPORATION:

We have examined the consolidated financial statements and supplemental schedules of GAF Corporation and its consolidated subsidiaries, listed under Item 12(a), which you are filing as part of your Annual Report (Form 10-K) to the Securities and Exchange Commission for the year ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for capitalization of interest costs described in Note 3 to the Consolidated Financial Statements. Also, in our opinion, the supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

New York, New York  
February 4, 1980

  
DELOITTE HASKINS & SELLS

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (Note 2)**

	<b>Year Ended December 31,</b>	
	<b>1979</b>	<b>1978</b>
	<b>Dollars in Thousands</b>	
Net Sales	\$1,213,243	\$1,063,291
Costs and Expenses:		
Cost of products sold	888,670	765,917
Distribution and selling	166,406	149,717
Advertising	19,287	16,698
Research and development	17,001	14,632
Administrative and general	58,018	49,795
Interest (Notes 3 and 10)	19,901	16,677
Total Costs and Expenses	<u>1,169,283</u>	<u>1,012,436</u>
Income before Other Income (Charges) and Income Taxes	43,960	50,855
Other Income (Charges):		
Loss on silver future transactions	(5,966)	—
Foreign exchange gains (losses) (Note 4)	(6,527)	4,639
Other — net (Note 5)	6,187	246
Total Other Income (Charges)	<u>(6,306)</u>	<u>4,885</u>
Income from Continuing Operations before Income Taxes	37,654	55,740
Income Taxes (Note 9)	9,471	25,341
Income from Continuing Operations	28,183	30,399
Income from Discontinued Segments, net of income taxes (including \$750,000 from operations) (Note 2)	—	3,765
Net Income	28,183	34,164
Less Preferred Stock Dividend Requirements	3,635	3,636
Net Income Applicable to Common Stock	<u>\$ 24,548</u>	<u>\$ 30,528</u>
Weighted Average Number of Common Shares	<u>13,386,000</u>	<u>13,306,000</u>
Earnings per Common Share:		
Primary		<b>Dollars</b>
Continuing	\$1.83	\$2.01
Discontinued	—	.28
Net Income	<u>\$1.83</u>	<u>\$2.29</u>
Fully Diluted		
Continuing	\$1.62	\$1.76
Discontinued	—	.21
Net Income	<u>\$1.62</u>	<u>\$1.97</u>

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	<b>1979</b>	<b>1978</b>
	<b>Dollars in Thousands</b>	
Balance, January 1	\$ 285,613	\$ 263,542
Net Income	28,183	34,164
Less cash dividends:		
Preferred stock (\$1.20 per share)	3,635	3,636
Common stock (1979 — \$.68 per share, 1978 — \$.64 per share)	9,069	8,457
Balance, December 31 (Note 10)	<u>\$ 301,092</u>	<u>\$ 285,613</u>

See Notes to Consolidated Financial Statements.

# **GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

## **CONSOLIDATED BALANCE SHEETS**

### **ASSETS**

	December 31,	
	1979	1978
	Dollars in Thousands	
CURRENT ASSETS		
Cash	\$ 17,903	\$ 14,384
Short-term investments	1,175	22,625
Accounts receivable — trade, less allowance for doubtful accounts — 1979 \$5,779,000 — 1978, \$5,318,000	188,586	168,142
Accounts receivable — other	10,007	18,679
Inventories:		
Finished goods	126,071	105,290
Work in process	37,552	29,802
Raw materials and supplies	100,587	75,353
Total inventories	264,210	210,445
Prepaid expenses	9,966	11,070
Income tax benefits	256	4,438
Assets of discontinued segments at estimated realizable value (Note 2)	—	22,448
Total current assets	492,123	472,231
PROPERTY, PLANT AND EQUIPMENT at cost (Notes 8 and 15)		
Land and land improvements	19,463	17,591
Buildings and building equipment	130,451	119,238
Machinery and equipment	299,758	268,720
Construction in progress	25,082	27,731
Total property, plant and equipment	474,734	433,280
Less accumulated depreciation	166,327	152,710
Property, plant and equipment — net	308,407	280,570
OTHER ASSETS		
Cost in excess of net assets acquired	24,321	24,351
Other assets	10,784	8,112
Total other assets	35,105	32,463
TOTAL ASSETS	\$835,635	\$785,264

See Notes to Consolidated Financial Statements.

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**LIABILITIES**

	<b>December 31,</b>	
	<b>1979</b>	<b>1978</b>
	<b>Dollars in Thousands</b>	
<b>CURRENT LIABILITIES</b>		
Notes payable (Note 10):		
Banks	\$ 16,851	\$ 10,318
Other (foreign)	799	13,290
Current portion of long-term debt (Notes 10 and 15)	4,462	8,124
Accounts payable:		
Trade	102,801	74,875
Other	7,049	4,258
Accrued liabilities:		
Payroll	5,886	4,618
Retirement plan	11,582	8,269
Other taxes	5,624	6,164
Interest	4,610	4,914
Other (Note 2)	36,897	41,065
Income taxes payable	5,002	3,911
Total current liabilities	<u>201,563</u>	<u>179,826</u>
<b>LONG-TERM DEBT LESS CURRENT PORTION (Note 10)</b>	<u>201,930</u>	<u>188,721</u>
<b>DEFERRED CREDITS</b>		
Income taxes (Note 9)	19,520	22,023
Investment tax credit	1,436	2,008
Total deferred credits	<u>20,956</u>	<u>24,031</u>
<b>OTHER LIABILITIES (Note 2)</b>	<u>42,156</u>	<u>40,948</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)</b>		
<b>STOCKHOLDERS' EQUITY (Notes 10, 11 and 12)</b>		
Preferred Stock, \$1 par value; authorized 6,000,000 shares; \$1.20 convertible series issued — 1979, 3,105,677 shares; 1978, 3,105,767 shares; at assigned value of \$1.25 per share (liquidation value 1979, \$83,305,000)	3,882	3,882
Common Stock, \$1 par value; authorized 25,000,000 shares; issued — 1979, 13,770,359 shares; 1978, 13,770,247 shares	13,770	13,770
Additional paid-in capital	53,900	53,936
Retained earnings	301,092	265,113
Total	<u>372,644</u>	<u>357,201</u>
Less stock held in treasury, at cost:		
Common — 1979, 323,787 shares; 1978, 567,207 shares	2,682	4,531
Preferred — 76,400 shares in 1979 and 1978	932	932
Total stockholders' equity	<u>369,030</u>	<u>351,738</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$835,635</u>	<u>\$785,284</u>

See Notes to Consolidated Financial Statements.

# **CAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

## **CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	<b>Year Ended December 31,</b>	
	<b>1979</b>	<b>1978</b>
	<b>Dollars in Thousands</b>	
<b>Working Capital Provided:</b>		
<b>Continuing Operations:</b>		
Income from Continuing Operations	\$ 28,183	\$ 30,399
Charges not affecting working capital:		
Depreciation	29,190	28,970
Deferred income taxes	(1,343)	3,147
Foreign exchange losses — noncurrent portion	2,226	3,273
Other	1,832	6,623
Working Capital provided	80,108	70,414
Discontinued Segments	—	2,150
Total working capital provided from operations	80,108	72,573
Increases in long-term debt	27,274	4,080
Fixed assets of discontinued segments held for sale	—	3,991
Increase (decrease) in noncurrent liability for phase-out costs	(1,732)	7,631
Total	85,630	88,255
<b>Working Capital Applied:</b>		
Additions to property, plant and equipment	58,804	51,148
Cash dividends	12,704	12,093
Reductions in long-term debt	14,338	8,278
Other	1,631	2,137
Total	87,475	73,656
Increase (Decrease) in Working Capital	(1,645)	14,599
Working Capital, January 1	292,405	277,806
Working Capital, December 31	<u>\$290,560</u>	<u>\$292,405</u>
<b>Analysis of Changes in Working Capital</b>		
<b>Increase (decrease) in current assets:</b>		
Cash	\$ 3,519	\$ (4,745)
Short-term investments	(21,450)	22,035
Accounts receivable	11,772	35,770
Inventories	53,765	16,089
Prepaid expenses	(1,064)	2,385
Income tax benefits	(4,182)	(14,133)
Assets of discontinued segments	(22,448)	(49,298)
Total	19,892	8,085
<b>(Increase) decrease in current liabilities:</b>		
Notes payable	5,958	9,244
Current portion of long-term debt	3,682	(1,543)
Accounts payable	(30,717)	(7,492)
Accrued liabilities	451	8,289
Income taxes payable	(1,091)	(1,928)
Total	(21,737)	(6,514)
Increase (Decrease) in Working Capital	<u>\$ (1,845)</u>	<u>\$ 14,599</u>

See Notes to Consolidated Financial Statements.



# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

(The following accounting policies apply to the continuing operations of the Company.)

#### Principles of Consolidation

The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements. A wholly owned captive insurance subsidiary and the 50% ownership of a chemical manufacturing company are carried on the equity method.

#### Short-term Investments

Short-term investments are valued at cost, which approximates market.

#### Inventories

Inventories are valued at the lower of cost (principally average) or market.

#### Property, Plant and Equipment, and Related Depreciation

Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the remaining estimated economic lives of the related assets. The cost and related accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts and any resultant gain or loss is included in current income.

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. These lives are subject to periodic review and revision to assure that the cost of the related assets is written off over their economic lives.

Beginning in 1979, certain interest charges are capitalized as part of the cost of property, plant and equipment additions. See Note 2 of Notes to Consolidated Financial Statements.

#### Deferred Income Taxes

Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for income tax purposes.

#### Investment Tax Credit

The Company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

#### Retirement Plans

The Company and its subsidiaries have retirement plans covering substantially all employees. The Company's policy is to fund amounts equal to pension costs accrued and, for plans with prior service costs, to amortize such costs over periods not to exceed forty years.

#### Earnings Per Share

Primary earnings per common share are computed by dividing income, less preferred stock dividend requirements, by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### Note 2. Discontinued Segments

Effective at December 31, 1978, the Company decided to discontinue its business forms operation at Shelby, Ohio, and this operation was sold during 1979. Net sales of the business forms segment were approximately \$28 million in 1978 and operating income was \$0.8 million (\$1.6 million before taxes).

During 1977, the Company discontinued operations in consumer photo, photo processing, dye-stuffs and pigments, felts and filters and several small businesses. Activity in the reserve and liability accounts is summarized in the table below:

	Reserve For Loss On Disposition of Assets	Liability For Phase-Out Costs	Total
	Dollars in Millions		
Balance, January 1, 1978	\$ 35.9	\$ 52.0	\$ 87.9
Activity during 1978 regarding 1977 discontinuances	(21.8)	(13.5)	(35.3)
Adjustment of excess reserve balance	(6.1)	—	(6.1)
Provision for discontinuance of business forms operation	.9	3.2	4.1
Balance, December 31, 1978	\$ 8.9	\$ 41.7	\$ 50.6
Activity during 1979	(8.9)	(4.2)	(13.1)
Balance, December 31, 1979	\$ —	\$ 37.5	\$ 37.5

The income from discontinued segments in 1978, as shown on the Consolidated Statement of Income, includes (i) a net after-tax effect (\$1.0 million) of the adjustment of excess reserve balance less the provision for discontinuance of the business forms operation, (ii) additional tax benefits realized (\$2.0 million), and (iii) operating income of the business forms operation for 1978 (\$0.8 million).

At December 31, 1979, the current portion of the liability for phase-out costs is \$3.1 million and is included in Accrued Liabilities; the noncurrent portion of \$34.4 million pertains primarily to retirement benefits and is included in Other Liabilities.

### Note 3. Capitalization of Interest

Total interest cost incurred during 1979 was \$22.6 million. Of the total, \$2.7 million was capitalized in connection with financing additions to property, plant and equipment, resulting in reported interest expense of \$19.9 million. Capitalization of a portion of interest costs was adopted in 1979 in accordance with a Statement recently issued by the Financial Accounting Standards Board.

### Note 4. Foreign Exchange

Foreign exchange gains (losses) are comprised as follows:

For the year	1979	1978
	Dollars in Thousands	
Pre-tax		
Translation	\$(2,874)	\$(5,595)
Forward exchange contracts	(3,284)	10,013
Other	(369)	221
Total	<u>\$(6,527)</u>	<u>\$ 4,639</u>
After-tax		
Translation	\$(2,874)	\$(5,595)
Forward exchange contracts	(1,675)	4,906
Other	(326)	(113)
Total	<u>\$(4,875)</u>	<u>\$ (802)</u>

Taxes related to foreign exchange are included in Income Taxes. Generally, balance sheet translations are not tax effected, whereas the results of forward exchange contracts are subject to tax.

### Note 5. Equity Method Investments

The net results of a wholly owned, captive insurance subsidiary and the Company's share of the results of its 50% ownership in a chemical manufacturing company are recorded in Other Income (Charges) on the Consolidated Statements of Income. For 1979, equity method income of \$234,000 is included, whereas a loss of \$1,848,000 is included for 1978. Foreign exchange gains and losses related to these investments are included within amounts reported in Note 4.

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### Note 6. Geographic Information

Information with respect to operations by geographic areas is as follows:

	1979	United States	Western Europe	Other	Eliminations and Other	Total Consolidated
		Dollars in Thousands				
Sales		\$1,029,384	\$206,288	\$41,142	\$(65,571)	\$1,213,243
Less intergeographic sales*		53,618	11,917	38	(65,571)	—
Sales to Unaffiliated Customers		\$ 975,766	\$196,371	\$41,106	—	\$1,213,243
Direct Operating Profit		\$ 83,045	\$ 13,735	\$ 3,169	—	\$ 99,949
Corporate Office Expenses						(62,295)
Income from Continuing Operations before Income Taxes						\$ 37,654
Assets and Liabilities:						
Inventories		\$ 191,654	\$ 62,764	\$ 9,792		\$ 264,210
Other Current Assets		167,531	50,522	9,660		227,913
Non-Current Assets		281,615	55,364	6,533		343,512
Total Assets		640,800	168,650	26,185		835,635
Current Liabilities		146,545	50,518	4,500		201,563
Other Liabilities		232,275	31,444	1,323		265,042
Total Liabilities		378,820	81,962	5,823		466,605
Net Assets		\$ 261,980	\$ 86,688	\$20,362		\$ 369,030
	1978					
Sales		\$ 922,294	\$162,709	\$32,364	\$(54,076)	\$1,063,291
Less intergeographic sales*		44,774	9,124	178	(54,076)	—
Sales to Unaffiliated Customers		\$ 877,520	\$153,585	\$32,186	—	\$1,063,291
Direct Operating Profit		\$ 88,559	\$ 11,579	\$ 1,622	—	\$ 101,760
Corporate Office Expenses						(46,030)
Income from Continuing Operations before Income Taxes						\$ 55,740
Assets and Liabilities:						
Inventories		\$ 158,042	\$ 43,105	\$ 9,298		\$ 210,445
Other Current Assets		185,509	45,182	8,647	\$ 22,448**	261,786
Non-Current Assets		252,235	54,132	6,666		313,033
Total Assets		595,786	142,419	24,611	22,448	785,264
Current Liabilities		126,495	46,367	6,964		179,826
Other Liabilities		237,099	14,660	1,941		253,700
Total Liabilities		363,594	61,027	8,905		433,526
Net Assets		\$ 232,192	\$ 81,392	\$15,706	\$ 22,448	\$ 351,738
	1977					
Sales		\$ 812,787	\$121,991	\$27,680	\$(42,917)	\$ 919,541
Less intergeographic sales*		41,964	953	—	(42,917)	—
Sales to Unaffiliated Customers		\$ 770,823	\$121,038	\$27,680	—	\$ 919,541
Direct Operating Profit		\$ 82,738	\$ 5,445	\$ 1,733	—	\$ 89,916
Corporate Office Expenses						(41,065)
Income from Continuing Operations before Income Taxes						\$ 48,851
Assets and Liabilities:						
Inventories		\$ 152,637	\$ 33,506	\$ 8,233		\$ 194,376
Other Current Assets		155,861	35,761	6,384	\$ 71,744**	269,770
Non-Current Assets		246,714	45,812	5,742		298,268
Total Assets		555,232	115,079	20,359	71,744	762,414
Current Liabilities		134,643	46,530	5,167		186,340
Other Liabilities		231,692	14,263	446		246,403
Total Liabilities		366,335	60,793	5,613		432,743
Net Assets		\$ 188,897	\$ 54,286	\$14,744	\$ 71,744	\$ 329,671

\* Inter-geographic sales are recorded at prices, above cost, as negotiated between the operating units.

\*\* Assets of discontinued segments at estimated realizable value (See Note 2).

# GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### Note 7. Retirement Plans

The cost of employee retirement benefits for continuing operations was \$15,177,000 in 1979 and \$14,087,000 in 1978. At December 31, 1979, the actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension cost by \$47,822,000. The estimated unfunded prior service cost at December 31, 1979 was \$63,522,000.

### Note 8. Property, Plant and Equipment

The ranges of annual depreciation rates generally were as follows:

Land improvements	3-20%
Buildings and building equipment	3-10%
Machinery and equipment	4-33%

### Note 9. Income Taxes

Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of \$42,655,000, since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits or because the remittance of such earnings will be indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating \$12,932,000 through December 31, 1979, since the Company intends to postpone indefinitely the remittance of such earnings.

The provision for income taxes on continuing operations consists of the following:

For the year	1979	1978
	Dollars in Thousands	
United States — current	\$ 7,739	\$22,687
United States — deferred	3,187	768
United States investment tax credit	(3,792)	(2,832)
Amortization of deferred United States investment tax credit arising prior to 1971	(572)	(572)
Foreign — current	2,331	543
Foreign — deferred (including United Kingdom tax revision in 1979 — see below)	(1,194)	2,319
State	1,772	2,428
Total Income Taxes	<u>\$ 9,471</u>	<u>\$25,341</u>

The effective tax rates on continuing operations were 25.2% and 45.5% in 1979 and 1978, respectively. The reasons for the differences from the statutory rates are as follows:

For the year	1979	1978
	% of Pre-tax Income	
Statutory rate	46.0%	48.0%
Increases (decreases) in tax rates resulting from:		
United States investment tax credit	(11.7)	(6.1)
State and local income taxes, net of United States income tax benefit	2.7	2.3
Foreign operations:		
United Kingdom tax revision (see below)	(8.5)	—
Other	1	3.7
Other — net	(3.4)	(2.4)
Effective tax rate	<u>25.2%</u>	<u>45.5%</u>

The principal sources of United States deferred taxes applicable to continuing operations were:

For the year	1979	1978
	Dollars in Thousands	
Excess of tax over book depreciation	\$2,438	\$ 2,400
Interest expense capitalized (see Note 3)	1,317	—
Foreign exchange translation	(955)	(275)
Pension expense	966	30
Other — net	(579)	(1,387)
Total	<u>\$3,187</u>	<u>\$ 768</u>

During 1979, the provision for income taxes was reduced by \$3.2 million as a result of a 1979 change in United Kingdom income tax laws related to inventories. Following the change in laws, the Financial Accounting Standards Board issued a Statement which provides that, in circumstances where it is definite that previously recorded deferred taxes will never be paid, these deferred taxes should be recovered as a reduction of the current tax provision; the amount so recovered was \$1.9 million. The Statement by the Financial Accounting Standards Board also provides that in circumstances where it is probable that no future taxes will be paid, they should not be provided; the resultant tax amount not provided was \$1.3 million.

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 10. Debt, Dividend Restrictions and Interest**

Long-term debt at December 31, 1979 and 1978 was as follows:

	<u>1979</u>	<u>1978</u>
	<u>Dollars in Thousands</u>	
9½% senior notes due March 31, 1991, with equal annual principal repayments beginning March 31, 1982	\$ 65,000	\$ 65,000
8½% senior notes due January 15, 1997, with equal annual principal repayments beginning January 15, 1983	40,000	40,000
5½% sinking fund debentures due December 1, 1991, with annual sinking fund payments of \$2,500,000 due on each December 1. At December 31, 1979, \$9,098,000 was held in treasury and may be used to accommodate future sinking fund requirements	20,902	31,802
Financings with a group of Irish banks, payable in Irish or British pounds, German marks or U.S. dollars. Financings are repayable from 1982 to 1986, with variable interest rates at 55% of the applicable interbank rates, plus a premium	17,243	—
Tax-exempt industrial revenue bonds which bear interest at rates of 3½% to 7½% and mature at various dates to 2004	20,896	15,999
5% convertible subordinated notes due April 1, 1994, with annual repayments beginning April 1, 1990	8,200	8,200
5½% convertible subordinated notes due April 1, 1983, with annual repayments of \$200,000 on each April 1 through 1982 and the balance of \$1,800,000 payable April 1, 1983	2,400	2,600
Other notes which bear interest at 5½% to 12½% and mature at various dates to 1996	13,506	13,441
Obligations under capital leases (See Note 15)	18,245	19,803
Total	<u>206,392</u>	<u>196,845</u>
Less portion due within one year	4,462	8,124
Long-term debt, less current portion	<u>\$201,930</u>	<u>\$188,721</u>

Cash requirements to meet maturing debt obligations over the next five years are:

1980	\$ 4,462,000
1981	\$ 6,505,000
1982	\$13,481,000
1983	\$19,139,000
1984	\$19,037,000

The 5% convertible subordinated notes are convertible into shares of common stock, at any time, at a conversion price of \$27.50 per share (subject to antidilution adjustments in specified circumstances).

The 5½% convertible subordinated notes are presently convertible into shares of common stock at a conversion price of \$28.72 per share (subject to antidilution adjustments in specified circumstances) only in connection with certain prepayments. All other conversion rights lapsed in 1976.

At December 31, 1979, the Company had lines of credit aggregating approximately \$190,000,000 (of which approximately \$172,000,000 was unused). These lines of credit are maintained with various banks on terms, generally renewable, expiring on various dates.

Borrowings generally bear interest at or near the prime commercial lending rate or its foreign equivalent. A variable fee, usually based on a percentage of the current prime rate, is paid on the domestic lines of credit. Compensating balances at December 31, 1979 are negligible.

Dividends are restricted under provisions of certain loan agreements. Under the most restrictive of these provisions, \$46,181,000 of retained earnings are available at December 31, 1979 for future dividends.

Information regarding short-term debt for the years 1979 and 1978 is:

	<u>1979</u>	<u>1978</u>
	<u>Dollars in Thousands</u>	
As of December 31:		
Balance outstanding	\$17,650	\$23,608
Average interest rate	12.7%	10.7%
For the year:		
Average short-term debt outstanding	\$51,446	\$42,384
Maximum short-term debt outstanding at any month-end	\$76,883	\$73,532
Average interest rate	11.5%	7.9%



**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 10. Debt, Dividend Restrictions and Interest — (Continued)**

Interest expense for the years ended December 31, 1979 and 1978 was comprised of:

	1979	1978
	Dollars in Thousands	
Interest on long-term debt	\$14,387	\$13,549
Amortization of debt discount	87	77
Interest on capitalized leases	1,323	1,229
Other interest	6,809	3,822
Interest capitalized (See Note 3)	(2,685)	—
<b>Total</b>	<b>\$19,901</b>	<b>\$18,677</b>

**Note 11. Capital Stock**

The \$1.20 convertible preferred stock, dividends on which are cumulative, is convertible at any time into common stock at the rate of 1¼ shares of common stock for each share of preferred. The Company may redeem the preferred stock at \$27.50 per share.

The voluntary or involuntary liquidation value of the 3,029,277 outstanding shares (3,105,677 shares issued less 76,400 shares held in treasury) of \$1.20 convertible preferred stock at December 31, 1979, aggregating \$83,305,000, exceeds the assigned value of \$1.25 by \$26.25 per share, or a total of \$79,519,000. In the opinion of counsel for the Company, retained earnings are not restricted as to payment of dividends on common stock by reason of the liquidation preferences of the \$1.20 Convertible Preferred Stock.

The number of shares of the Company's common stock reserved for issuance at December 31, 1979 and 1978 were as follows:

	1979	1978
Reserved for conversion of \$1.20 Convertible Preferred Stock	3,882,096	3,882,209
Reserved for exercise of stock options	856,670	976,190
Reserved for conversion of 5¼% Convertible Subordinated Notes	83,565	90,529
Reserved for conversion of 5% Convertible Subordinated Notes	298,182	298,182
Reserved for sale under the Stock Purchase Plan	464,600	477,600
<b>Total</b>	<b>5,585,113</b>	<b>5,724,710</b>

Transactions in common stock held in treasury were as follows:

	1979	1978
	Dollars in Thousands	
Balance, January 1	\$4,531	\$4,436
Re-purchase of 7,500 shares in 1979 and 17,000 shares in 1978 pursuant to the stock purchase plan	19	93
Issuance from treasury of 246,920 shares in 1979 (in connection with sales under the stock option plan and the restricted stock purchase plan)	(1,868)	—
<b>Balance, December 31</b>	<b>\$2,682</b>	<b>\$4,531</b>

As a result of the above issuance of treasury shares during 1979, additional paid-in capital has been decreased by \$174,000.

During 1979, 90 shares of preferred stock were converted into 112 shares of common stock; during 1978, 190 shares of preferred stock, assigned value of \$1,000, were converted into 237 shares of common stock.

**Note 12. Stock Option and Stock Purchase Plans**

**1975 Stock Option Plan**

The 1975 stock option plan authorizes the granting of non-qualified stock options for 600,000 shares of common stock to key employees during a ten-year period ending February 11, 1985. The options are exercisable one year after the grant and terminate after ten years. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. Summaries of transactions affecting options under the 1975 plan follow.



**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 12. Stock Option and Stock Purchase Plans — (Continued)**

Options outstanding for the 1975 stock option plan, by year of grant, at December 31, 1979 and 1978 were as follows:

Year of Grant	Option Price Per Share	1979		1978	
		No. of Shares	Total Option Price	No. of Shares	Total Option Price
1977*	\$9.625	200,670	\$1,931,000	250,900	\$2,415,000
1979	\$10.125 — \$11.875	313,000	3,536,000	—	—
		<u>513,670</u>	<u>\$5,467,000</u>	<u>250,900</u>	<u>\$2,415,000</u>

\* Shares granted in 1977 are exercisable at December 31, 1979.

Common stock options became exercisable as follows:

Year Exercisable	Number of Shares	Option Price		Market Price on Date First Exercisable	
		Per Share	Total	Per Share	Total
1978	252,000	\$9.625	\$2,426,000	\$14.063	\$3,544,000

Common stock options exercised or surrendered were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1978	1,100	\$9.625	\$ 10,000	\$14.063 — 14.50	\$ 16,000
1979	47,230*	9.625	455,000	10.375 — 12.625	527,000

\* Includes 40,000 shares surrendered. The 1975 plan provides for stock appreciation rights, wherein an option holder may request "surrender" of the option in exchange for payment (in cash or stock) by the Company of the difference between the option and market prices on the date of surrender. The requested surrender of an option may be granted or denied at the discretion of the Company's Stock Option Committee.

Options for 238,000 and 548,000 shares were available for grant at December 31, 1979 and 1978, respectively.

**1965 Stock Option Plan**

Authority to grant options under the Company's 1965 qualified stock option plan expired on March 31, 1975. Under the provisions of the plan, options to purchase shares of common stock were granted to key employees during a ten-year period. The prices at which options were granted were not less than 100% of the fair market value of the shares on the dates the options were granted. The options terminate five years from date of grant. Summaries of transactions affecting options under the 1965 plan follow.

Options outstanding for the 1965 stock option plan (all of which are exercisable), by year of grant, at December 31, 1979 and 1978 were as follows:

Year of Grant	Option Price Per Share	1979		1978	
		No. of Shares	Total Option Price	No. of Shares	Total Option Price
1974	\$9.50	—	—	28,000	\$ 266,000
1975	9.69	105,000	\$1,017,000	125,000	1,211,000
		<u>105,000</u>	<u>\$1,017,000</u>	<u>153,000</u>	<u>\$1,477,000</u>

Common stock options became exercisable as follows:

Year Exercisable	Number of Shares	Option Price		Market Price on Date First Exercisable	
		Per Share	Total	Per Share	Total
1975	54,000	\$9.50	\$ 513,000	\$10.125	\$ 547,000
1976	160,500	9.69	1,555,000	13.313	2,137,000

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 12. Stock Option and Stock Purchase Plans — (Continued)**

Common stock options exercised were as follows:

Year Ended December 31,	Number of Shares	Option Price		Market Price on Date Exercised	
		Per Share	Total	Per Share	Total
1975	—	—	—	—	—
1976	14,410	\$9.50-20.875	\$ 159,000	\$13.75 -16.375	\$ 212,000
1977	—	—	—	—	—
1978	23,190	9.50- 9.69	223,000	10.688-14.50	309,000
1979	41,900	9.50- 9.69	401,000	10.75 -12.875	501,000

**1969 Stock Purchase Plan**

Under the provisions of the Company's 1969 restricted and unrestricted stock purchase plan, 650,000 shares of common stock were authorized for sale to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered. Under certain conditions, the Company has the right to repurchase restricted shares of common stock at the original selling price.

The excess of quoted market value at the date of grant over the aggregate sales price for restricted shares sold is amortized, with resultant charges against income and increases in additional paid-in capital over the restriction period. The amount amortized was \$138,000 and \$90,000 in 1979 and 1978, respectively. The balance to be amortized through 1989 amounted to \$1,012,000 and \$221,000 at December 31, 1979 and 1978, respectively.

**Note 13. Executive Incentive Compensation**

The Company has an Executive Incentive Compensation Plan that provides for bonuses to key executives of the Company based on consolidated net income (as defined). The provision for such bonuses was \$1,056,000 and \$2,512,000 in 1979 and 1978, respectively.

**Note 14. Supplementary Income Statement Information**

The following expenses of continuing operations are included in the Consolidated Statements of Income.

	1979	1978
	Dollars in Thousands	
Maintenance and repairs	\$57,487	\$52,584
Taxes, other than taxes on income		
Social Security and unemployment	24,311	21,429
Other	7,381	7,434
Rent on operating leases	16,912	15,874

**Note 15. Commitments and Contingent Liabilities**

Capitalized leases of \$17,253,000 and \$18,287,000 are included in Property, Plant and Equipment — Net at December 31, 1979 and 1978, respectively. The present value of future net minimum lease payments is reflected as long-term debt (see Note 10).

The majority of the capital leases pertain to buildings, the most significant of which is the administrative headquarters located in Wayne, N. J. The amortization associated with assets recorded under capital leases is included in depreciation expense.

The Company also has operating leases for transportation, data processing equipment and for another building.

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 15. Commitments and Contingent Liabilities — (Continued)**

A schedule of future minimum lease payments under capital leases and future minimum rental payments required under long-term noncancellable operating leases, as of December 31, 1979, is as follows:

	Minimum Payments by Period	
	Capital Leases	Operating Leases
	Dollars in Thousands	
1980	\$ 2,440	\$ 7,718
1981	3,657	6,947
1982	2,957	5,212
1983	1,974	3,192
1984	1,739	2,297
Later Years	16,564	9,428
Total minimum payments	\$29,331	\$34,794
Less interest included above	11,086	
Present value of net minimum lease payments	\$18,245	

The Company had commitments of approximately \$27,112,000 at December 31, 1979 for the acquisition of property, plant and equipment.

At December 31, 1979, there were certain lawsuits and claims pending against the Company. In the opinion of management, the ultimate disposition of these matters will have no material, adverse effect on the Company's consolidated financial position.

**Note 16. Quarterly Financial Data (Unaudited) (\*)**

The following is a summary of financial data by quarter for the years 1979 and 1978:

	1979 By Quarter				1978 By Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	Dollars in Thousands							
Net Sales	\$267,237	\$296,166	\$324,937	\$324,903	\$229,800	\$279,384	\$278,402	\$275,705
Cost of Products Sold	193,498	215,561	239,001	240,610	165,347	202,297	201,509	196,764
Gross Profit	\$ 73,739	\$ 80,605	\$ 85,936	\$ 84,293	\$ 64,453	\$ 77,087	\$ 76,893	\$ 78,941
Income before Other Income (Charges) and Income Taxes	\$ 9,252	\$ 11,324	\$ 14,180	\$ 9,204	\$ 6,469	\$ 14,934	\$ 14,733	\$ 14,719
Loss on silver future transactions	—	(3,939)	(2,118)	91	—	—	—	—
Foreign exchange gains (losses)	(2,930)	(234)	(2,684)	(679)	142	345	2,451	1,701
Other — net	1,115	912	932	3,228**	376	(574)	463	(19)
Income from Continuing Operations before Income Taxes	7,437	8,063	10,310	11,844	6,987	14,705	17,647	16,401
Income Taxes	2,112	3,100	34***	4,225***	2,990	5,993	8,867	7,491
Income from Continuing Operations	5,325	4,963	10,276	7,619	3,997	8,712	8,780	8,910
Income from Discontinued Segments, net of income tax benefits	—	—	—	—	109	139	1,067	2,450
Net Income	5,325	4,963	10,276	7,619	4,106	8,851	9,847	11,360
Less Preferred Stock Dividend Requirements	909	909	909	908	909	909	909	909
Net Income Applicable to Common Stock	\$ 4,416	\$ 4,054	\$ 9,367	\$ 6,711	\$ 3,197	\$ 7,942	\$ 8,938	\$ 10,451
Earnings per Common Share:	Dollars							
Primary								
Continuing	\$ .33	\$ .30	\$ .70	\$ .50	\$ .23	\$ .59	\$ .59	\$ .60
Discontinued	—	—	—	—	.01	.01	.08	.18
Net Income	\$ .33	\$ .30	\$ .70	\$ .50	\$ .24	\$ .60	\$ .67	\$ .78
Fully Diluted								
Continuing	\$ .31	\$ .28	\$ .59	\$ .44	\$ .23	\$ .50	\$ .51	\$ .52
Discontinued	—	—	—	—	.01	.01	.06	.13
Net Income	\$ .31	\$ .28	\$ .59	\$ .44	\$ .24	\$ .51	\$ .57	\$ .65

\* Previously reported quarterly financial data for 1979 has been restated for capitalized interest. See Note 3.

# **GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

### **Note 16. Quarterly Financial Data (Unaudited) (\*) — (Continued)**

\*\* Includes \$2.3 million for reduction in product liability reserves which was provided evenly in the earlier quarters of 1979.

\*\*\* 1979 Income Taxes have been reduced by a United Kingdom tax revision: \$1.9 million and \$1.3 million in the third and fourth quarters, respectively. See Note 9.

### **Note 17. Impact of Inflation (Unaudited)**

#### *Constant dollar/historic cost data:*

The Financial Accounting Standards Board (FASB) has recently issued a Statement (No. 33 — Financial Reporting and Changing Prices) wherein guidelines were established and experimentation by companies was requested in an attempt to determine: what information is useful in gaining an understanding of the impact of inflation on financial statements and how such supplementary information should be portrayed. The accompanying tables present the supplementary financial data, for 1979, adjusted for general inflation (constant dollar/historic cost data) and also selected constant dollar information for each of the prior five years. The information has been compiled, using the Consumer Price Index — Urban, to adjust or restate certain historic costs to a constant value, equivalent to average 1979 dollars.

In conformity with the guidelines of the FASB, only depreciation expense and cost of products sold have been adjusted. Depreciation has been increased to reflect the expense which would have been recorded if the assets had been acquired with average 1979 dollars rather than with dollars actually expended in prior years. The same procedures as those used in the primary financial statements have been applied in these constant dollar calculations with regard to useful lives, salvage values and depreciation. Cost of products sold has been increased to reflect a restatement of historic inventory costs at the beginning and end of the year in average 1979 dollars. Although reported expenses have been increased, no related income tax benefit has been shown. This treatment highlights a hidden tax being borne by the Company as a result of inflation.

<u>Supplementary Financial Data Adjusted for General Inflation</u>	<u>For the Year 1979</u>
(In Thousands)	
Income from continuing operations as reported in the primary Statement of Income	\$ 28,183
Adjustments to restate costs for the effect of general inflation:	
Depreciation	(15,546)
Cost of products sold	(28,178)
Loss from continuing operations adjusted for the effects of general inflation:	
In average 1979 dollars	(15,541)
Per common share	(1.16)
Purchasing power gain on net monetary liabilities held during the year	\$ 22,209
Net assets at end of year (compared with book net assets of \$369,030)	\$461,858

During inflationary times, calculations of the kind described above will always result in decreased constant dollar profitability as compared with income based on historic cost/nominal dollars.

The guidelines established by the FASB specify that, although there were gains from holding monetary liabilities and from the increase in net assets, these gains may not be aggregated with the loss from continuing operations adjusted for the effects of general inflation shown in the above table.

The gain from holding net monetary liabilities arises because, during 1979, the Company held more liabilities which were fixed in amount of dollars to be repaid than it held assets similarly fixed in amount of dollars to be received. Similarly, the increase in the net assets at year-end reflects the fact that the Company's inventories and properties, when stated in 1979 dollars, have substantially greater value than is recorded using generally accepted accounting principles as is required in the primary financial statements.

Beginning with the reporting for 1980, information on both an historic cost/constant dollar basis and a current cost basis will be presented and will include comparable information for 1979.

**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 17. Impact of Inflation (Unaudited) — (Continued)**

Presented below is selected information reflecting historic amounts stated in 1979 constant dollars for each of the prior five years. Except for 1979 Net Sales and Dividends per common share, the amounts will not agree with those shown elsewhere in this report or with those previously reported.

Dollars in Thousands					
Year Ended December 31	1979	1978	1977	1976	1975
Net Sales	\$1,213,243	\$1,183,006	\$1,101,423	\$1,059,373	\$1,013,642
Dollars					
Dividends per common share	\$ .68	\$ .71	\$ .72	\$ .74	\$ .70
Year-end market price per common share	\$ 9.57	\$ 12.73	\$ 12.71	\$ 16.69	\$ 13.90
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

**Replacement Cost Data**

In compliance with regulations set forth by the Securities and Exchange Commission, the Company has calculated estimated replacement cost information for inventories and the productive capacity of property, plant and equipment at December 31, 1979 and 1978, and the related estimated effect of such costs on cost of products sold and depreciation expense for the years then ended.

The following tables reconcile, where necessary, the historical costs reported in the Consolidated Financial Statements to the historical costs for which replacement cost data are required:

As of December 31, 1979	Property, Plant and Equipment		Inventories
	Cost	Accumulated Depreciation	Cost
	Dollars in Thousands		
As reported in the Consolidated Balance Sheet	\$474,734	\$166,327	\$264,210
Add fully depreciated assets written off but still in use	110,710	110,710	—
	585,444	277,037	264,210
Deduct amounts applicable to items for which replacement cost information is not required:			
Construction in progress	25,062	—	—
Other — including land and assets not to be replaced	28,979	13,172	—
	54,041	13,172	—
Historical costs of assets for which replacement cost disclosures are required	\$531,403	\$263,865	\$264,210

As of December 31, 1978	Property, Plant and Equipment		Inventories
	Cost	Accumulated Depreciation	Cost
	Dollars in Thousands		
As reported in the Consolidated Balance Sheet	\$433,280	\$152,710	\$210,445
Add fully depreciated assets written off but still in use	97,604	97,604	—
	530,884	250,314	210,445
Deduct amounts applicable to items for which replacement cost information is not required:			
Construction in progress	27,731	—	—
Other — including land and assets not to be replaced	23,765	8,422	—
	51,496	8,422	—
Historical costs of assets for which replacement cost disclosures are required	\$479,388	\$241,892	\$210,445

For year ended December 31, 1979	Cost of Products Sold	Depreciation Included In		
		Cost of Products Sold	Other	Total
		Dollars in Thousands		
As reported in the Consolidated Financial Statements	\$888,670	\$ 22,746	\$ 6,444	\$ 29,190
Deduct amounts applicable to items for which replacement cost information is not required	—	—	789	789
Historical costs for which replacement cost disclosures are required	\$888,670	\$ 22,746	\$ 5,655	\$ 28,401
For year ended December 31, 1978	Cost of Products Sold	Depreciation Included In		
		Cost of Products Sold	Other	Total
		Dollars in Thousands		
As reported in the Consolidated Financial Statements	\$765,917	\$ 19,586	\$ 7,384	\$ 26,970
Deduct amounts applicable to items for which replacement cost information is not required	333	333	725	1,058
Historical costs for which replacement cost disclosures are required	\$765,584	\$ 19,253	\$ 6,659	\$ 25,912



**GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 17. Impact of Inflation (Unaudited) — (Continued)**

The following table summarizes the Company's replacement cost estimates:

	As of December 31, 1979		As of December 31, 1978	
	Historical Cost	Estimated Replacement Cost	Historical Cost	Estimated Replacement Cost
	Dollars in Thousands			
Property, plant and equipment	\$531,403	\$970,790	\$479,388	\$837,302
Accumulated depreciation	263,865	561,885	241,892	480,980
Net property, plant & equipment	\$267,538	\$408,905	\$237,496	\$356,322
Inventories	\$264,210	\$307,138	\$210,445	\$224,529
	For Year Ended 12/31/79		For Year Ended 12/31/78	
Cost of products sold for the year	\$888,670	\$922,924	\$765,584	\$796,706
Depreciation for the year	\$ 28,401*	\$ 42,950	\$ 25,912*	\$ 37,222

\* Of the total depreciation amounts of \$28,401,000 and \$25,912,000 in 1979 and 1978, respectively, \$22,746,000 and \$19,253,000 are included in cost of products sold.

**Method Used in Estimating Current Replacement Cost**

In general, the estimated replacement cost for most assets was determined by applying appropriate indices to historical asset costs. The index used in the U.S. was the Gross National Product Implicit Price Deflator. Other applicable indices were used in foreign countries. It is believed that the indices used are reasonably representative of changes in prices for the assets. For some older buildings, current estimates of unit construction costs were used to determine the cost for an equivalent amount of floor space with like productive capacity.

Accumulated depreciation and depreciation expense on a replacement cost basis are based on the same estimated economic lives used for financial accounting purposes and are calculated using the straight-line method, computed by adjusting historical cost depreciation by the same indices used to determine the replacement cost of productive capacity.

If replacement cost depreciation were computed for all assets still in use (including those which are fully depreciated for financial accounting purposes), depreciation expense would approximate \$62,000,000 and \$51,000,000 for the years 1979 and 1978, respectively.

Fully depreciated assets written off but still in use have been included in the calculation at an original cost of \$110,710,000 and \$97,604,000 for the years 1979 and 1978, respectively; these assets have an apparent gross replacement cost of approximately 2.4 times the historical cost and as a result have tended to increase the ratio of replacement cost to historical cost. The replacement cost for other assets show an overall ratio of 1.7 and 1.6 times historical amounts for 1979 and 1978, respectively.

The replacement cost of finished products and work in process inventories for each year have been estimated on the basis of standard costs adjusted to reflect that year's most current material, labor and overhead cost factors, as well as the estimated replacement depreciation expenses of productive facilities. Raw materials have been estimated on the basis of the most recent prices absorbed by the Company for each year.

The estimated replacement cost for inventories, determined as above, includes depreciation expense on the basis of a replaced, productive capacity. This should not be used as a prediction of the anticipated actual costs to be incurred by the Company in the replacement of inventories under its now existing plant configurations.

The replacement cost of products sold was estimated on the basis of current product costs adjusted to reflect increased replacement cost depreciation.

## GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1979

(Dollars In Thousands)

Classification	Balance at January 1, 1979	Additions At Cost	Retire- ments	Other Changes Add (Deduct) Transfers		Balance At December 31, 1979
				Between Accounts	From Discon- tinued Seg- ments	
Land	\$ 11,769	\$ 1,080	\$ 352	\$ —	\$ —	\$ 12,497
Land improvements	5,696	1,242	106	—	8	6,840
Mineral properties	126	—	—	—	—	126
Buildings and building equipment	119,238	14,500	3,339	(7)	59	130,451
Machinery and equipment	268,720	44,651	15,144	7	1,524	299,758
Construction in progress	27,731	(2,669)	—	—	—	25,062
	<u>\$433,280</u>	<u>\$58,804</u>	<u>\$18,941</u>	<u>\$ —</u>	<u>\$1,591</u>	<u>\$474,734</u>

Year Ended December 31, 1978

(Dollars In Thousands)

Classification	Balance at January 1, 1978	Additions At Cost	Retire- ments	Other Changes Add (Deduct) Transfers		Balance At December 31, 1978
				Between Accounts	To Discon- tinued Seg- ments From Discon- tinued Seg- ments	
Land	\$ 11,282	\$ 894	\$ 309	\$ —	\$ (135)	\$ 11,769
Land improvements	4,879	1,227	321	—	(89)	5,696
Mineral properties	126	—	—	—	—	126
Buildings and building equipment	113,399	13,047	4,633	71	(3,305)	119,238
Machinery and equipment	259,464	33,521	18,857	(71)	(6,614)	268,720
Construction in progress	25,285	2,459	—	—	(13)	27,731
	<u>\$414,435</u>	<u>\$51,148</u>	<u>\$24,120</u>	<u>\$ —</u>	<u>\$ (10,156)</u>	<u>\$433,280</u>

## GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SCHEDULE VI — ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1979

(Dollars in Thousands)

Classification	Balance at January 1, 1979	Additions Charged to Costs and Expenses (a)	Retire- ments	Other Changes Add (Deduct) Transfers		Balance at December 31, 1979
				Between Accounts	From Dis- continued Segments	
Land improvements	\$ 2,203	\$ 306	\$ 105	\$ —	\$ 7	\$ 2,454
Mineral properties	35	1	—	—	—	36
Buildings and building equipment	44,801	5,012	2,560	(1)	33	47,285
Machinery and equipment	105,628	23,871	13,767	1	819	116,552
	<u>\$152,710</u>	<u>\$29,190</u>	<u>\$16,432</u>	<u>\$ —</u>	<u>\$859</u>	<u>\$166,327</u>

NOTE:

(a) Charged entirely to continuing operations.

Year Ended December 31, 1978

(Dollars in Thousands)

Classification	Balance at January 1, 1978	Additions Charged to Costs and Expenses (a)	Retire- ments	Other Changes Add (Deduct) Transfers			Balance at December 31, 1978
				Between Accounts	To Discon- tinued Segments	From Dis- continued Segments	
Land improvements	\$ 2,218	\$ 344	\$ 261	\$ —	\$ (55)	\$ —	\$ 2,246
Mineral properties	34	1	—	\$ —	—	—	35
Buildings and building equipment	44,422	5,663	4,166	(17)	(1,518)	417	44,801
Machinery and equipment	104,824	21,356	16,551	17	(4,592)	574	105,628
	<u>\$151,498</u>	<u>\$27,364</u>	<u>\$20,978</u>	<u>\$ —</u>	<u>\$ (6,165)</u>	<u>\$991</u>	<u>\$152,710</u>

NOTE:

(a) Consists of \$26,970,000 charged to continuing operations and \$394,000 charged to discontinued operations.

## GAF CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SCHEDULE XII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Year Ended December 31, 1979

(Dollars In Thousands)

Description	Balance at January 1, 1979	Charged to Costs and Expenses	Deductions	Balance at December 31, 1979
Deducted from Accounts Receivable — Trade:				
Allowance for doubtful accounts	\$5,318	\$ 1,733(a)	\$1,272(b)	\$5,779
Allowance for discounts	1,213	10,878	8,782	3,309
Reserve for Inventories	8,386	9,082	7,845	9,623

## NOTES:

(a) Charged entirely to continuing operations.

(b) Amounts charged off net of recoveries.

Year Ended December 31, 1978

(Dollars In Thousands)

Description	Balance at January 1, 1978	Charged to Costs and Expenses	Deductions	Transfers to Discontinued Segments	Balance at December 31, 1978
Deducted from Accounts Receivable — Trade:					
Allowance for doubtful accounts	\$4,949	\$1,753(a)	\$1,248(b)	\$(136)	\$5,318
Allowance for discounts	1,433	2,427	2,647	—	1,213
Reserve for Inventories	8,458	6,473	6,468	(77)	8,386

## NOTES:

(a) Consists of \$1,725,000 charged to continuing operations and \$28,000 charged to discontinued operations.

(b) Amounts charged off net of recoveries.